S. HRG. 98-668

JAPANESE VOLUNTARY AUTO EXPORT LIMITS

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GOALS AND INTERGOVERNMENTAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-EIGHTH CONGRESS

FIRST SESSION

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CONTENTS

WITNESSES AND STATEMENTS

TUESDAY, OCTOBER 25, 1983

	Page
Bentsen, Hon. Lloyd, vice chairman of the Subcommittee on Economic Goals and Intergovernmental Policy: Opening statement	1
Levin, Hon. Carl, a U.S. Senator from the State of Michigan	4
Hillis, Hon. Elwood, a U.S. Representative in Congress from the Fifth Congressional District of the State of Indiana	10
McCammon, David N., vice president, Ford Motor Co., Dearborn, Mich	17
Greenwald, Gerald, vice chairman, Chrysler Corp., Detroit, Mich	20
McElwaine, Robert, president, American International Automobile Dealers Association	50

SUBMISSIONS FOR THE RECORD

TUESDAY, OCTOBER 25, 1983

Bentsen, Hon. Lloyd: Chart reflecting import controls on Japanese vehicles	3
General Motors Corp.: Statement of	65
Greenwald, Gerald: Prepared statement, together with an attachment	27
Hillis, Hon. Elwood: Text of H. Con. Res. 178, September 29, 1983, regarding the extension of the Japanese auto export restraints	14
Levin, Hon. Carl:	
Letter addressed to President Reagan, dated August 11, 1983, concerning a new United States-China textile agreement	7
Letter addressed to President Reagan, dated October 10, 1983, concerning the continuance of the Japanese voluntary restraint arrangements on automobiles, signed by Senator Levin and 11 other Members of the Senate	8
McElwaine, Robert: Prepared statement	55

JAPANESE VOLUNTARY AUTO EXPORT LIMITS

TUESDAY, OCTOBER 25, 1983

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GOALS
AND INTERGOVERNMENTAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 385, Russell Senate Office Building, Hon. Lloyd Bentsen (vice chairman of the subcommittee) presiding.

Present: Senator Bentsen and Representative Scheuer.

Also present: George R. Tyler and Christopher J. Frenze, professional staff members.

OPENING STATEMENT OF SENATOR BENTSEN, VICE CHAIRMAN

Senator BENTSEN. I want to welcome you to these hearings designed to explore the voluntary limits which the Japanese Government has imposed on auto exports to the United States.

These limits were first imposed by the Japanese in 1981. We are now in the midst of the third year of such limits and a decision must be made in the next several months regarding their extension for another year to begin in March 1984.

These limits were imposed in an effort to minimize dislocation in our key auto and auto-related industries. They were imposed to vent U.S. pressure for permanent trade controls, and addressed the substantial price advantage which Japanese firms enjoyed for several reasons over United States producers. Perhaps the foremost cause of the Japanese-American price differential is the relative strength of the dollar versus the yen—a reflection of our sky-high interest rates and the dollar's role as a key international currency.

Any time you have $200 billion deficits, and see them extending on into the future, you are going to have very high interest rates. That is going to keep the dollar strong as related to the yen. Let us look at an example of how that hurts U.S. firms. If they increase productivity by 6 percent and they have a swing up in the dollar against the yen by 10 percent, they have lost ground to the extent of 4 percent. So, these foreign currency fluctuations are beyond the ability of labor and management within a given industry to handle for themselves.

The important component of that situation, which has received very little attention, is the impact of the deficit. For example, I have been advised that Armco today has stated its intention to shut down its Houston steelmaking plant by January 27, 1984. They say that part of

the reason is, again, the differential between the bloated dollar and the yen, the bloated dollar and the mark, and other currencies, as a consequence of the deficits and the high interest rates they have created in this country.

The responsive attitude which Japanese officials displayed in the bilateral discussions preceding the current voluntary auto export limit generated substantial goodwill. Their limitation decision reflected a keen appreciation for the fact that both United States and Japanese auto prices are in some measure being affected by economic forces beyond the control of either industry.

At the same time, United States officials agreed to maintain markets in this country for Japanese autos which are substantially more liberal and open than in Europe. Let me draw your attention to the attached chart over here [indicating]. The Japanese Government agreed to hold auto exports at 16 percent of the domestic market. That is far more liberal than the limitations imposed elsewhere. The German and British Governments, for example, permit imports equal to only 10 to 12 percent of their domestic markets; in France, 3 percent; Italy, 2,200 vehicles; and Spain permits no imports.

So what we have here on the part of the United States, even with this present kind of a limitation, is a more liberal trade posture than you see in other countries.

The Special Trade Representative and the President will soon be negotiating with Japanese officials on a variety of trade issues, including continuation for a fourth year of the voluntary restraints on autos. Continuation of the auto export limit raises a number of questions involving the health of our auto industry. And the purpose of this hearing is to explore those questions. We know that consumers are bearing the brunt of these export limits. The issue is whether other factors warrant continuation of the voluntary Japanese auto export limits for one more year. These other factors include the deficit outlook here, steps which could be taken to correct the yen-dollar imbalance, and how the auto industry has reacted to the breathing spell afforded them by the limits to improve their competitive posture.

I welcome the representatives of the U.S. auto industry to this hearing. Our first panel will be comprised of Gerald Greenwald, vice chairman of Chrysler, and David McCammon, vice president for corporation strategy and analysis at the Ford Motor Co. They will be followed by Robert McElwaine, president of the American International Automobile Dealers Association.

Before we do that, I would like to call on the distinguished Senator from the State of Michigan, Senator Carl Levin, whose State has been particularly affected by these concerns.

[The chart referred to by Senator Bentsen follows:]

IMPORT CONTROLS ON JAPANESE VEHICLES

COUNTRY	IMPORT LIMIT
GERMANY	10-12%
GREAT BRITAIN	10-12%
FRANCE	3%
ITALY	2,200 VEHICLES
SPAIN	NO IMPORTS PERMITTED
U.S.	16%

STATEMENT OF HON. CARL LEVIN, A U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator LEVIN. Thank you very much, Senator Bentsen. First of all, we greatly appreciate your holding these hearings. As you have pointed out, the so-called voluntary restraints are scheduled to expire on March 31, 1984, unless they are extended. These hearings are of critical importance on the question of whether or not this administration is going to extend them and, if so, at what level. Those are two issues. It is not just one issue of whether they are going to be extended, but at what level they will be extended; and I would like very briefly this morning to address myself to both those issues.

Unrestrained Japanese auto exports during the next several years would adversely affect the United States economy in general and the auto, glass, steel, textile, rubber, and other related industries in particular. Without Japanese auto export restraints, unemployment would increase by an additional 250,000 people in this country and increase the deficit by about $5 billion.

It is critically important that the voluntary restraint agreement be continued and that the Japanese Government know of our commitment and of our resolve in this area.

That is why earlier this month I led a bipartisan group of 12 of our colleagues to write the President urging him "to seek a continuation of the voluntary restraint agreement at a level below the existing 1.68 million autos for at least 2 years." And, of course, that is the third issue, as to how long any additional voluntary restraints will continue.

Mr. Chairman, I would ask that a copy of the October 10 letter from 12 of our colleagues to the President be inserted in the record.

Senator BENTSEN. Without objection, that will be done.

Senator LEVIN. Mr. Chairman, the Reagan administration has reportedly decided to ask the Japanese to extend the voluntary restraints on exports of autos to the United States for only 1 year and at a higher level, a level of 1.8 million autos. Now while this decision does represent an improvement in the administration's approach, there are four reasons to conclude that what we really need is a decrease in the number of autos that Japan exports to this country.

First, while we all welcome signs of economic recovery, few economists are confident or certain about the future. Sales of both domestic and foreign autos in this country which averaged 10.7 million units a year between 1976 and 1980 was reduced to 9.5 million units a year between 1982 and 1983, and current projections puts sales still at less than 10 million units a year between 1984 and 1987. That number is going to fall if interest rates rise. So that there is a smaller market than existed at the time that this 1.68 million figure was contemplated.

Second, as total sales have declined, the share of our market captured by Japan has increased from 16.6 percent in 1979 to 22.6 percent in 1982. If we were to reduce the Japanese to the market share originally contemplated when the arrangement was announced, they would have to send us 112,000 fewer automobiles than the current arrangement provides.

Third, Mr. Chairman, while Japan has not been hurt by the restraint arrangement, America would be if the arrangement were al-

lowed to expire. Since 1980, no Japanese automaker has shown a loss and Toyota has just set a new record for profits—one unmatched by any other Japanese company in any industry. In contrast, U.S. automakers lost billions during this same period.

Without restraints, American domestic production would fall as Japanese market penetration increased. Our manufacturers would be forced to import cheaper autos from Japan to be sold here under their United States nameplates rather than to invest in the facilities needed to produce their own products in the United States. Such a response would do nothing to improve our economy, and it would do nothing to help the more than 250,000 autoworkers now out of work.

Finally, Mr. Chairman, continuation of the voluntary restraint arrangement would bring some consistency to the administration's trade policies. The administration recently negotiated on behalf of the domestic textile industry an actual quota on imports of textile products from the People's Republic of China. Should we do anything less for the automobile industry than we do for the textile industry in the United States? I would ask that a copy of my letter to President Reagan dated August 11 of this year relative to the textile quotas negotiated by the administration with China be inserted in the record.

Senator BENTSEN. Without objection.

Senator LEVIN. Mr. Chairman, the auto industry in the United States has been buffeted by recession, squeezed by government regulations, and confused by inconsistent signals about consumer demand. Despite all that, it has made massive investments in redesigning its products and retooling its factories, and it has begun to recover. That recovery will be threatened, however, if the current arrangement is not extended at a lower level for at least 2 years.

The future of this vital industry is not yet assured. The Reagan administration must tell Japan not only to continue to restrain auto exports to the United States, but also to restrain them more than at the present level. That is all it takes, telling Japan, as other countries have told Japan, successfully. It is absolutely essential that that be done if our economy and our auto industry and all the related industries are going to have a chance at real recovery. All we have to do is tell them what we will accept and that will be their response because they would then know that the alternative would be an administration request to Congress for legislative relief from excessive imports if the Japanese did not voluntarily comply.

When we talk about voluntary restraints, we ought to know what we are talking about. These are figures which the Japanese agreed to export to us, but they really export to us everything that they can, that they can get away with, that we will accept, that we will tolerate. They are voluntary only in the sense that the Japanese announce them. They are not voluntary in the sense that they are not negotiated and they should not be voluntary in the sense that we do not tell them what it is that we will accept. Germany tells them what Germany will accept. Great Britain tells them what Great Britain will accept. France tells them what France will accept. Italy tells them what Italy will accept—all at lower levels than we will. We accept far more Japanese automobiles than any other auto-producing country in the world.

30-695 O - 84 - 2

All it takes is the administration telling the Japanese this is the level that we will accept, and the Japanese will have no practical alternative but to say "That is what we will do." If they did not comply the administration could then come to Congress and with the administration we could legislate what the appropriate level would be.

I again commend the chairman. I think his interest in this subject is absolutely critical if we are going to have any economic recovery to speak of in our automobile and related industries.

[The two letters referred to by Senator Levin for the record follow:]

CARL LEVIN
MICHIGAN

United States Senate
WASHINGTON, D.C. 20510

August 11, 1983

President Ronald Reagan
The White House
Washington, D.C. 20500

Dear Mr. President:

It has come to my attention that the United States and China recently agreed to a new five-year textile accord which will replace the three-year agreement that expired in December, 1982. The new textile agreement sets forth limits on imports from China.

This agreement is but one in a long series of textile accords which assign quotas to imports. The major textile accord, the Multifiber Arrangement, describes one of the objectives of textile accords as "avoiding disruptive effects on individual markets and on individual lines of production in both importing and exporting countries." The government of the United States has for many years negotiated quotas to protect the domestic textile industry.

But this type of effort is not extended to the U.S. auto industry. In fact, the trade policy applied to auto imports is in absolute contradiction to that applied to textile imports.

More specifically, last January, when Prime Minister Nakasone visited you in Washington, the subject of Japanese auto imports was not even raised. Nor was it raised at Williamsburg in May. Official silence sent the message that the Administration was not concerned about Japanese auto imports.

While the textile industry is protected by quotas your trade representative has negotiated, when it comes to autos all we hear is "free trade." We have a right to expect consistency in textile and auto trade policies.

I urge you to reconsider negotiating an auto import agreement with Japan with a voluntary restraint figure below the current 1.68 million mark, a figure which would adequately take into account the slump in total auto sales.

I look forward to hearing from you. Thank you.

Sincerely,

Carl Levin

Carl Levin

CL/led

United States Senate
WASHINGTON, D.C. 20510

Oct. 10, 1983

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

In March 1984, the Japanese Government's "voluntary restraints" on the export of autos to the U.S. will expire. It is critically important to the economic health of the auto industry, suppliers, dealers and the many workers dependent on this industry that the voluntary restraint agreement be continued. However, this will not occur unless you and the U.S. Trade Representative actively pursue this goal.

We urge you to seek continuation of the voluntary restraint arrangement at a level below the existing 1.68 million autos for at least 2 years, and to indicate your intent to do so in the next few weeks.

The economic recession, in combination with Japanese auto imports, have had a devastating effect on the U.S. auto industry. In 1982, total new car sales in the U.S. fell for the fifth consecutive year, with sales of domestic autos at their lowest levels in twenty-oneyears. Over the same five-year period, the market share of imported autos, mostly from Japan, continued to increase. And this gain in market share occurred despite the introduction by domestic manufacturers of new fuel-efficient front-wheel-drive autos and numerous incentive/rebate programs.

These factors in turn have contributed to the deterioration in the financial condition of the industry, despite the all-out efforts of management, labor, suppliers and dealers to reduce costs and improve productivity while containing price increases. In addition, approximately 210,000 auto workers are on indefinite layoff, which is compounded by unemployment in the supplier industries.

While sales are returning and the U.S. auto industry is showing improved profitability, its further recovery is threatened by unrestrained Japanese auto imports after March 1984. Without continuation of voluntary restraints, any gains made by the industry will be wasted and the sacrifices of workers and suppliers will be meaningless. Moreover, future investments in new plant and equipment designed to improve domestic production capacity will be threatened, causing increased unemployment in the industry and amongst suppliers.

We believe you share our strong commitment to see that the U.S. auto industry is able to maintain its forward progress toward renewed economic health and an improved competitive position in the domestic market. Continuation of the voluntary restraint agreement is a critical element in that effort. Moreover, this would be consistent with the treatment afforded the domestic textile industry where the Government has for many years negotiated quotas.

We urge you to seek continuation of the voluntary restraint arrangement for at least 2 years at a level consistent with the market shares enjoyed by the Japanese auto makers when the agreement was originally reached. This would involve a reduction from the existing level of approximately 112,500 autos. The auto industry would then have the opportunity to proceed with its retooling while maintaining and hopefully improving the employment picture for many laid-off workers.

We hope this goal will be pursued in an unambiguous and direct manner in discussions with the Japanese Government, and by your representatives. It is imperative that the Japanese Government know of your strong commitment to see that the U.S. auto industry is able to continue its effort toward renewed economic health and an improved competitive position in the domestic market.

We look forward to your support in this matter.

Sincerely,

Alan Cranston

Carl Levin

Tom Eagleton

Joe Biden

Senator BENTSEN. Senator Levin, I know how deeply you feel about this issue and I suspect that your State is more prominently affected than any other State by changes in the auto industry outlook. I know how much you have worked on the issue.

Do you find some comparable limitations on the importation of our products into Japan?

Senator LEVIN. Japan is the most protectionist society in the world. Anyone in the cattle business, anyone in the tobacco business, telecommunications business, the lumber business, or indeed the auto business could describe just how tough it is to export to Japan. They protect their industry. They have succeeded in doing so. We have let them get away with it and that is why they do it. It is that simple.

They announced a number of months ago some changes in their policies—in terms of exports—to make it easier for other countries to export to Japan, but U.S. News & World Report recently confirmed that they are dragging their feet on implementation of those changes.

So they do protect their industries much more dramatically than we do or any other country does because they have been allowed to get away with it. I think we are foolish to allow them to get away with it and I think we ought to respond and protect our industries and our jobs to at least the same extent they do. Free trade is obviously a goal for the whole world, but the whole world has got to practice it or else some are going to gain advantage at the expense of others.

Senator BENTSEN. Senator Levin, we are very appreciative of your testimony this morning. Thank you very much.

Senator LEVIN. Thank you.

Senator BENTSEN. I am pleased to see that Congressman Hillis has returned. He had to leave momentarily to vote. We are very pleased to have you and you may proceed with your testimony.

STATEMENT OF HON. ELWOOD HILLIS, A U.S. REPRESENTATIVE IN CONGRESS FROM THE FIFTH CONGRESSIONAL DISTRICT OF THE STATE OF INDIANA

Representative HILLIS. Thank you very much, Senator.

Senator Bentsen, certainly it is a pleasure to be able to come and appear this morning and I certainly want to thank you for giving me the opportunity to testify this morning. The topic which you are examining is most timely, since Ambassador Brock left yesterday for Japan, in what, presumably, will be the first of a long series of high-level trade negotiations.

The economic and trade difficulties we are currently having with Japan are not limited only to automobiles. Japanese quotas on such things as American-produced beef and agricultural products, especially citrus fruits, have to be addressed as well by our trade negotiators.

And while our talks with the Japanese will likely center on the immediate question of automobile import quotas in 1984, we must not lose sight of the entire long-range problem. The artificial imbalance between the Japanese yen and the American dollar is at the heart of the trade difficulties that exist between our country and Japan.

That imbalance, admittedly, exists in part, because high U.S. interest rates and the sharp drop in inflation have made the dollar very strong in relation to other currencies, but the imbalance I think is also

artificially nurtured by Japanese Government actions which have kept the yen undervalued.

This currency imbalance allows the Japanese to sell their subcompacts for about $750 cheaper than comparable American models.

I had the privilege of discussing this problem last Thursday with Ambassador Brock, who assured me that the United States had every intention of broaching this issue with the Japanese.

Mr. Brock told me, and I quote: "The yen-dollar imbalance is the heart of the problem. In the long run, it is more important than voluntary or mandatory quotas."

I certainly agree with the Ambassador's assessment, but I also realize that, as we work toward finding that long-range solution, we need to remember that thousands of American jobs are in jeopardy if, in the short term, Japan is allowed to dramatically increase its auto exports to the United States.

I am the author of House Concurrent Resolution 178 which urges Ambassador Brock and the Reagan administration to negotiate a continuation of the 1.68 million vehicle per year quota. The resolution was introduced on September 29 and, to date, we have 126 cosponsors.

I do not know at this time if my resolution will get a subcommittee hearing or not. But whether it does or does not, the fact that 126 Members of the House with widely varying philosophic views signed it should—and I believe does—send a clear signal to the Government of Japan.

The message is that the U.S. Congress cannot and will not stand idly by and allow the future of the American economic recovery to be determined in Tokyo.

Japan has, understandably, looked upon the United States as a great trading partner and market for their products. When the Japanese Government agreed to a self-imposed automobile quota in April 1981, it did so only because there were strong indications that the Congress was poised to consider mandatory quotas. While the Japanese automakers did not like their Government's decision; they went along with it knowing that protectionist legislation would be infinitely more damaging to them in the long run.

I might comment, Senator, I know that in about 1979 or 1980 employment in my State of Indiana in the automobile industry was over 70,000 people. As of last year, it was down to under 40,000 people, and actually there was a reduction of 40 percent of the people working in the automobile industry in the State of Indiana alone. The general rule of thumb is that for every job in the automobile industry providing direct employment there are about two additional jobs. So if there was a loss of some 30,000 jobs in the industry, there were an additional 60,000 more probably laid off as well. So it has been a major catastrophe in the Midwest.

The 1.68 million quota was, at the time, expected to give Japan 18 percent of the American automobile market. But industry predictions that year were too high and Japan actually received a windfall of 700,000 automobiles, increasing their share of the market to 22 percent.

I do not need to tell this committee what the effect has been on General Motors, Ford, Chrysler, and American Motors. All four companies absorbed tremendous losses with Chrysler narrowly averting bankruptcy only because of congressional action.

Thousands of men and women lost their jobs and many of them remain laid off. In my own hometown of Kokomo, Ind., we saw unemployment rates as high as 23 percent. The local government has had to float bond issues 3 years in a row just to bail out the county welfare and food stamp programs.

We saw soup lines for the first time since the Great Depression and the financial strain on the Salvation Army was so great that the local charity had exhausted its budget before midyear.

Now it appears the recovery is bounding back. The unemployment rates have fallen down to 9.3 percent. The gross national product is growing at an annual rate of 7.9 percent and inflation was announced today as low as 3.4 percent.

People are going back to the showrooms again and American auto manufacturers are offering them cars with greater fuel efficiency, improved safety features and imaginative styling.

The domestic auto manufacturers were forced to respond to their industry depression by drastically changing their tradition-steeped philosophy. Likewise, the American auto worker made significant contract concessions that were necessary to save their jobs and their companies from financial ruin.

Now that these sacrifices are finally beginning to bear fruit, along comes Japan once again clamoring for a piece of the pie.

I believe the recovery, particularly in the automobile industry, is too new, too fragile to successfully challenge a frontal assault by the Japanese imports. I am not saying their cars are better than ours and I am not suggesting that the American models could not compete with their Japanese competitors if both started the race at the same starting line. But the simple fact is, they do not.

As I stated before, the yen-dollar imbalance gives the Japanese car a $750 price advantage, but that is not all. Unlike the United States, Japan holds down its income and payroll taxes by imposing a substantial consumption sales tax. Under international agreement, these consumption taxes are rebated on exports and imposed on imports. Income and payroll taxes may not be applied this way.

Japan takes full advantage of these provisions while the United States does not. Japan levies a 17.5- to 22.5-percent consumption tax on American cars imported into their country which has the practical effect of driving our product out of the Japanese market.

But when a Datsun, Toyota, or Honda is exported to the United States, Japan forgives all its taxes and the United States levies no special tax of its own. The result is about another $600 advantage, making the Japanese head start at around $1,350 per vehicle.

Only the 1.68 million vehicle quota has prevented Japan from exploiting that advantage completely. If quotas are lifted and our markets opened wide to this unequal competition, you will see thousands of automobile workers, steelworkers, and rubber workers thrown out of their jobs as GM, Ford, and Chrysler are eaten alive by these imports.

The already horrendous American balance-of-trade deficit which is expected to be $60 billion this year and $100 billion next year will be further exacerbated.

To be sure, the United States needs to take a long, hard look at our trade policy. There are steps we can and should take to restore some balance to the import-export ledger. We cannot be expected to successfully compete in a very tough trade market if we are playing with a whiffle ball and they are playing with a hard ball.

But at least for 1 more year I think we owe it to the thousands of Americans whose jobs depend on a healthy auto industry to keep the quotas in place.

America is not, by nature, a protectionist country. We have been since World War II a free trade nation with few artificial barriers to outside investment. We do not want a trade war and we do not want a society that is closed to foreign goods.

But, at the same time, we must guarantee our economy will continue to grow and the American worker will have a job. That is our responsibility as Members of Congress.

For now, I believe there is a place for automobile quotas. Let us give the economy a chance to gain strength, Ambassador Brock the backing he needs to hang tough with the Japanese and the Congress time to correct our out-of-touch-with-reality trade laws.

Continuation of the quota is only a temporary solution, but I believe a necessary one if the United States is to avoid another catastrophic recession as we search for the permanent answer to this problem.

Thank you very much, and for the record, I have a copy of my concurrent resolution.

[The House concurent resolution referred to follows:]

30-695 O - 84 - 3

98TH CONGRESS
1ST SESSION

H. CON. RES. 178

Expressing the sense of the Congress with respect to the urgency of extending the Japanese auto export restraints beyond March 31, 1984, at carryover levels, without any exceptions.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 29, 1983

Mr. HILLIS introduced the following concurrent resolution; which was referred to the Committee on Ways and Means

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CONCURRENT RESOLUTION

Expressing the sense of the Congress with respect to the urgency of extending the Japanese auto export restraints beyond March 31, 1984, at carryover levels, without any exceptions.

Whereas the trade deficit is expected to reach $100,000,000,000 next year, undermining the recovery by eliminating two million five hundred thousand American jobs and increasing United States Government budget deficits by $40,000,000,000 due to lost tax revenues and increased costs of welfare benefits;

Whereas auto trade represented $54,000,000,000 or one-third of the total United States bilateral trade deficit with Japan over the past five years;

Whereas maintaining Japanese car exports to this country at present levels is indispensible to any measures designed to restore a more reasonable balance of trade between the two countries;

Whereas the original expectations for the restraint program did not materialize, causing it to be less effective in increasing United States production and jobs;

Whereas the Japanese experienced a windfall of seven hundred thousand sales because they did not reduce the export limit when the United States car industry demand fell short of original expectations;

Whereas the critics' expectations of forced consumer choice and abnormal car price increases due to restraints did not materialize;

Whereas the strength and durability of the United States auto sales recovery is still uncertain, and domestic auto companies need time to rebuild their balance sheets;

Whereas each five-hundred-thousand-unit loss in United States auto production represents the output of two assembly plants, one engine plant, one transmission plant, and sixty thousand autoworker jobs plus four hundred thousand tons of steel and another forty thousand jobs in the supplier stream, and $3,000,000,000 in the United States trade deficit;

Whereas misalined exchange rates and tax inequities continue to disadvantage United States auto producers and account for over half of the total Japanese cost advantage; and

Whereas nearly 90 per centum of the world car markets outside of the United States and Japan restrict or monitor Japanese imports, thereby representing a risk that Japanese export units could be diverted to the United States.

Resolved by the House of Representatives (the Senate concurring), That it is the sense of the Congress that the President and his representatives should urge the Japanese to extend the voluntary auto export limits beyond March 31, 1984, at the present level without any exceptions, as a concrete measure to foster recovery of United States auto production and employment, and keep the United States trade situation from further deteriorating.

Senator BENTSEN. Thank you very much, Congressman Hillis. Your information and your testimony is helpful to us and we appreciate your presenting it.

Representative HILLIS. Thank you.

Senator BENTSEN. Our next witness will be D. N. McCammon, who is a vice president of the Ford Motor Co. He will be followed by Gerald Greenwald, vice chairman of the Chrysler Corp. Weather has delayed his landing in Washington until moments ago.

STATEMENT OF DAVID N. McCAMMON, VICE PRESIDENT, FORD MOTOR CO., DEARBORN, MICH.

Mr. McCAMMON. Thank you, Senator Bentsen. I am David McCammon, vice president of Ford.

We appreciate the opportunity to present our views on Japanese auto export restraint. The committee's interest in this matter is well-founded; the outcome of discussions between the United States and Japanese Governments will have a major impact on the strength of the United States economic recovery.

Nowhere would recovery be more welcome than in the auto industry, which has lived through 3 long years of depressed sales, red ink, and record high unemployment. The stage is set for a strengthening in the U.S. car market next year, but much depends on continued moderation in interest rates. We are optimistic there will be some recovery. In our view, the issue with respect to the restraint decision is whether the United States economy or Japan will get the jobs that would flow from a recovery in auto sales.

This morning we would like to emphasize four points: one, without restraint, there could be a dramatic surge in Japanese car exports to the United States; two, such a surge would impose a sizable penalty on the United States economy and employment; three, maintaining the present 1.68 million limit is fair and reasonable; and four, the United States auto industry is committed to continuing the progress that has been made in narrowing the competitive gap with Japan.

First, a surge in Japanese shipments could easily happen. Indeed, Japanese producers are lobbying the United States Government to this purpose, seeking to undo restraint either by eliminating it altogether or by obtaining a level so high that it would not have any meaningful effect. The undervalued yen provides to Japanese producers an artificial cost break amounting to $750 a car and could be used to subsidize an export surge. Further, without restraints, the United States would represent the only sizable market open to Japanese car exports—90 percent of free world markets elsewhere already restrict Japanese cars in one way or another.

Second, any increase in allowable Japanese shipments to the United States market will impose a sizable penalty on the United States economy. For example, an increase of 500,000 export would:

Limit or even eliminate potential U.S. production increases; keep 100,000 U.S. workers on layoff—60,000 of them in the automotive sector alone; keep idle the equivalent of two U.S. assembly plants, one engine plant, one transmission plant, and the production capacity required to produce 400,000 tons of steel.

These losses of U.S. jobs and production would cost Federal, State, and local governments about $1.5 billion in tax dollars—a combination of tax revenues lost as a result of lower car production and added welfare and unemployment costs for workers without jobs. It would also increase the United States trade deficit with Japan by another $3 billion—to a total of about $22 billion, including an unprecedented 17 billion in automotive trade.

In a larger sense. this is an example of the vicious spiral that is facing the U.S. economy as a whole. The budget deficit raises interest rates and attracts foreign capital, which inflates the dollar and distorts currency relationships, leading to a worsening trade deficit, and that increases budget deficits, starting the cycle all over again.

The distortion of exchange rates is a major problem for the auto industry. Although the dollar is overvalued against most major currencies, the misalinement is particularly severe with respect to the yen, which itself is undervalued. The misalinement of the two currencies, generally acknowledged to be 20 to 25 percent, gives an enormous and artificially advantage to Japanese products that are shipped into our marketplace.

Another distortion affecting auto industry competitiveness is a U.S. tax system that is uncompetitive in world trade. Our trading partners impose taxes on imports and do not impose similar taxes on their exports. This is permitted for the income and payroll tax system used primarily by the United States. The tax load on a U.S. car exported to Japan, for example, about doubles—because no U.S. taxes are remitted and Japan applies their commodity tax to imports. But when a Japanese car is exported to the United States, it carries only about half the tax load as the same car sold at home.

Together, currency misalinements and tax inequities account for more than half of Japan's "cost" advantage in autos. Surely restraints should continue while Japanese and United States exchange rates, tax systems, trade and jobs are so out of balance.

Third, the present restraint limit of 1.68 million cars is fair and reasonable:

This is a large volume of sales—amounting to over half the volume of cars that Japan sells in its home market and a quarter of Japan's worldwide car production. It is three times the amount of Japanese car imports allowed into all the nations of the European Community.

The U.S. market is just getting back to the volume of industry sales that was the basis for the 1.68 million unit limit when it was initially established.

The limit was never adjusted downward when industry demand slumped to 8 million cars in 1981–82 instead of rising as expected to 10 million or more. As a result, the Japanese effectively received a windfall gain of some four to five points of market share—22 to 23 percent instead of 18—which amounted to a sales bonus of some 700,000 cars in the past 2 years—costing some 70,000 U.S. jobs.

Any increase in sales of Japanese small cars would cause a proportionate reduction in small car sales of United States producers. This would reduce the average fuel economy of the U.S. car fleet, making it more difficult to comply with mandated requirements. To compensate, domestic producers would face the prospect of having to ration sales of family size cars—further reducing U.S. production and jobs.

It seems wholly unreasonable that Japan would ask to adjust the limit upward now, when there was never any downward adjustment in recognition of a severely depressed U.S. auto market. In fact, restraint never had a chance to put U.S. workers back on the line until very recently.

Additionally, continued restraint is needed to help rebuild the balance sheets of U.S. automakers. Between 1978 and 1982, working capital fell by $12 billion, equity declined by $6 billion and debt increased by nearly $6 billion. This reflected record high capital expenditures by the three major domestic auto companies when they were incurring record operating losses.

Fourth, United States manufacturers have made substantial progress in closing the competitive gap with the Japanese. This has led to important benefits to U.S. car buyers in new products, fuel economy, and value.

From 1981 to 1983, U.S. producers have put 46 new models on the road.

American cars have outstanding fuel economy—the average American car is better than the average import in 14 out of 17 EPA weight classes. Industrywide average fuel economy is up over 80 percent since 1974.

New car price increases have been held to about half the Consumer Price Index—averaging only 2 percent annually in the last 2 years during import restraint compared with 7 percent annually for the 4 years prior to restraint.

At Ford, we are encouraged by the progress we've made in each of these areas and in particular by the spirit of cooperation of our work force that has made such progress possible. For example:

We have improved quality by more than 50 percent since 1980 and surveys of 1983 owners show that we have matched many Japanese models.

Ford is the only domestic manufacturer with cars on all of EPA's top 10 fuel economy lists. The fuel economy of each and every model is up dramatically; today's family size LTD has fuel economy equal to the smallest car Ford built in 1975.

We have cut our break-even point by one-third by reducing operating costs, raising productivity, and moderating compensation. These efficiency improvements have outpaced the Japanese by $400 a car in the case of the Escort—at a constant yen rate.

Our game plan is to continue this progress. We are committed to aggressive targets in all of the product, quality, cost, and productivity areas under our control. We hope that government will step up to those factors that only government can address. By working together, we can make the U.S. industry fully competitive.

In the meantime, we believe the present limit on Japanese car exports is fair and reasonable. Continuation of restraint at a 1.68 million level would be a simple and concrete way to foster recovery of U.S. auto production and employment, and to keep the U.S. trade situation from further deteriorating.

We are encouraged by recent congressional support and concern on this matter. More than 120 members are sponsoring a House resolution calling for an extension at present levels and a number of Senators have urged similar action.

Mr. Chairman, the Japanese look to this committee as an important voice of the Congress. Now is the time to signal Japan that auto export restraint is fundamental to United States economic recovery and employment, and that any increase in the 1.68 million level is unacceptable.

Senator BENTSEN. Thank you very much, Mr. McCammon. I see Mr. Greenwald has arrived. We welcome you and are glad you made it through the weather. Mr. McCammon, I would ask that you stay. After Mr. Greenwald completes his testimony, I will address questions to the two of you.

Mr. Greenwald.

STATEMENT OF GERALD GREENWALD, VICE CHAIRMAN, CHRYSLER CORP., DETROIT, MICH.

Mr. GREENWALD. Thank you, Mr. Vice Chairman. Thank you for your patience. I am sorry I was late. I do appreciate this opportunity to appear before the committee this morning to describe Chrysler's views on economic problems confronting the auto industry and the steps that need to be taken to correct those problems.

I came here this morning out of the fog from Detroit and I could not help but think but all of you must be reading the newspapers about how Detroit seems to have magically turned from bust to boom overnight. The press these days is full of headlines about robust auto sales, called back autoworkers, and big profits by the Big Three.

I should quickly tell you that I am not complaining at all. After 4 years of near depression, Detroit is indeed beginning to enjoy a measure of well-earned recovery. At Chrysler, we are especially pleased that we have been able to call back more than 10,000 workers so far this year, in addition to doing well enough that we were able to pay back the now famous loan guarantee program and to pay off those debts 7 years ahead of schedule.

But if I were to end there, as some press reports have, I would not be giving the full story. The recovery in Detroit is not as strong and certainly not as assured as some would lead us to believe. We are not quite ready to take on a boomtown status just yet. Let me give you a couple of reasons why I feel that way.

First of all, total sales of passenger cars in the United States have not returned to the prerecession levels as yet. Total sales in the 1983 model year were 8.8 million units. That includes all domestic and import cars and that is down from about 10.2 million cars that represented the average in the 5-year period just preceding the recession. And I might say, preceding and during the time of the restraints that have been applied to Japanese cars.

Second, working capital and stockholder equity in the U.S. auto industry is not back to the prerecession period by a long stretch because working capital has declined $9.4 billion since and stockholder equity about $4 billion, and, of course, this was supposed to have been a period when the auto industry would have had a respite after the oil crisis of 1979 to have recovered.

Third, long-term debt in that same period increased $4.8 billion for U.S. automakers.

Finally, long-term debt of the major companies has increased just short of $5 billion during the period.

As I try to tell our own Chrysler employees, as good a record as we have accomplished just in this last second quarter, having earned $310 million, that is on the heels of having averaged a loss of $350 million every quarter for the last 10 quarters. So simply stated, we need 9 more quarters more than 2 years from now to simply get even.

But will the industry get that chance? That is a question that I think the committee is considering, to continue to call back people to work, to fully realize the quality and the productivity gains of the last 4 years and they have been real, they have been a dedicated effort, and they are substantial, or will the roof come tumbling down upon us again as we are making repairs on the very foundation of our industry? Now that is the real question that I think needs to be addressed.

There are three issues I think we need to look at that will have a real impact on that very question. They are all getting a lot of attention, but I would have to say not very much action here in Washington.

The issues are energy policy and Federal deficits and up-front and center now trade policy. All three of these issues potentially a life or death impact on the U.S. auto industry and for that matter on jobs throughout America in as much as one lost job in the auto industry will translate into three lost jobs in the economy as a whole.

These issues are all interrelated, of course. This country's lack of a concerted Federal energy policy set America up for the last—I should say the second oil crisis back in 1979, which gave the Japanese their first firm toehold in the United States market. High interest rates, jumping up and down but around 20 percent, compounded the problem, sending the U.S. auto industry into a 4-year depression from which we are just now beginning to recover.

Now I had always learned that those who did not pay attention to their history were doomed to repeat it, and in the case of energy, unless governmental actions are taken soon to get the country back on the road to energy independence, then I am afraid we will all be doomed to repeat a third time the two energy crises that rocked this Nation's economy in the 1970's. It is as simple as that. Even though our energy needs as a country have slacked off a bit, we still import 30 percent of our oil from foreign countries, many of which are either politically or economically unstable. Just how unstable, obviously, is evident in the tragic events of last weekend in the Middle East.

Just last week, on the 10th anniversary of the first oil embargo, the question on the minds of news commentators all over the country was, "Could it happen again, a third time?" And I have to say the answer to that question is, obviously, yes, it could. In fact, it could happen any day and the effect on the U.S. economy, on jobs, and on the U.S. auto industry would once again be disastrous.

How can we prevent that from happening? Well, for some time now, Chrysler has supported an increased tax, either on imported oil or gas at the pump, or both, as the way to take care of the energy problem. Of course, it is tough to get people to listen to any kind of tax proposal of that type, particularly as we approach an election year.

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But this proposal does have an attractive side benefit, because for every penny you put on gasoline, you do raise $1 billion in Federal revenue. A quarter a gallon gas tax would raise $25 billion, which would make a significant cut in our $200 billion a year Federal budget deficit and, of course, that has had the effect of getting people's attention.

The correlation between large deficits and high interest rates is inescapable. High interest rates, bouncing up and down at one point as high as 21 percent, coupled with the recession, killed off or delayed, by our best estimates, about 4.5 million auto sales since 1979. They were a factor in the layoff of a quarter of a million autoworkers. They helped send more than 4,000 independent auto dealers around the country right out of business. And they almost ground the American housing industry to a complete halt; $200 billion a year deficits, if left unchecked, will again send interest rates out of control in 1 or 2 years and I think most of us are convinced of that.

I suppose with that conclusion, you could put me in the Feldstein camp in the Feldstein-Don Regan debate in this town going on about deficits. While huge deficits alone may not bring high interest rates, but huge deficits combined with what we have, tight monetary policy, certainly will. And, of course, tight monetary policy is what we have in this country and we are going to have by all indications.

I might say the alternative to that would be printing money and a restoration of high inflation and I do not think we want that as an answer either.

Well, as we have learned from price-cutting experience at Chrysler, you have to start someplace, and what we found was a phrase that worked for us when implemented called equal sacrifice. It gets everybody into the act and the only way you can get everybody into the act is everybody has got to do their part.

In Chrysler's turnaround, the equality of sacrifice principle was brought to a hard and serious conclusion. Everybody gave some. The Federal Government guaranteed loans; our workers took concessions; our suppliers accepted price reductions and longer payment terms; our lenders restructured our debt; and our dealers bought debentures; the States in which we do business extended loans and, most importantly, it worked, and quicker than anybody had ever expected because everybody is being made whole again, including I might say the Federal Government which even made a tidy $340 million on the deal.

It is a sad commentary, by the way, to note that the Government's $300-plus million windfall received from the Chrysler loan guarantee act merely cuts the Federal budget deficit by about 0.1 of 1 percent. Someone at our shop went through a calculation and said, "We have covered 8 hours of the deficit for the year."

I think there is a bigger lesson in our experience for how to make big cuts in the deficit—and maybe for curing our energy problem and promoting real and long-term economic expansion in the bargain.

But for it to work, by definition, everybody has to make sacrifices, and in this case it means Congress and the administration. A gas tax would raise $25 billion and a surcharge on imported oil would raise another estimated $15 billion. A 5-percent cut in defense spending

would take another $15 billion out of the deficit. I guess I would observe that should not be hard considering the reports we have seen about cost overruns by defense contractors.

If Chrysler suppliers could come into line to save Chrysler, surely our defense suppliers could shape up as well.

Finally, a matching 5-percent cut in entitlements would deflate the deficit by another $15 billion. It is tough to do I know, but so is cutting our costs in half at Chrysler.

Add all those actions up, and the Federal deficit could also be cut by almost a half. Those are our ideas and I am sure there are plenty others that are better, but the cold, hard fact is that the deficit has got to be cut or we are all in trouble and, as a businessman, I know that equal sacrifice does work and Chrysler is living proof of it.

Well, that is deficits and energy. Now let me come to the issue at hand that we are all worried about right now, and that is trade.

They do dovetail together because high interest rates do add an impact on our negative balance of payments with Japan by helping to drive up the dollar, but it is a little bit like adding insult to injury because the bigger problem as we see it lies with the yen itself. Because of stringent capital controls, trade controls, and a policy of discouraging foreign investment in Japan, the yen is undervalued 20 to 25 percent in favor of the Japanese and, all other things equal, that gives them about an $800 advantage, depending on the size of the car sold in the United States against a U.S. manufacturer.

Add that to about a $950 advantage the Japanese enjoy because their government forgives their 22.5 percent domestic commodity tax on all cars exported, and you face a $1,750 unearned what I would call windfall advantage for the Japanese above and beyond any advantages that they may enjoy because of lower wage rates or anything else.

I am not trying to say that it is not legal. I am trying to say that it is both fixable by our country and it is unfair.

It is not fair because these advantages have helped the Japanese industry as a whole accumulate a $64 billion trade surplus over the United States in the past 5 years. More than 80 percent of that surplus, $54 billion, is in automotive products alone. Our automotive trade deficit with Japan, by the way, is estimated just this year, in 1 year, to be $15 billion.

It is not fair, also, because while the Japanese are taking about a quarter of our U.S. market in any given 10-day sales period, American jobs are being destroyed, not just in the auto industry, but in several American industries around the country. In fact, I am sure you have all read and are aware of the Washington Post article quoting David Packard, the U.S. Chairman of the United States-Japan Advisory Commission, in which he estimates that the undervalued yen alone is costing the United States at least 2 million jobs.

It is not fair, as I see it, for the Japanese, because in the long run, if we do not have a more moderate action that will solve the problem to offset their unearned advantages, then surely mounting protectionist sentiment in this country—and there is plenty of it—could eventually force harsher action such as passage of the local content bill like the one now under consideration in the House.

The truth is, American automakers just cannot compete against the Japanese in the small car market with the unfair advantages that they enjoy. Chrysler cannot. And by all indications, General Motors cannot, and I suppose that is why GM is attempting to adopt what has become called their Japanese strategy, a plan Chrysler I should say has severe reservations about, not the least of which is that in a year it would turn General Motors around to becoming the third largest U.S. importer of Japanese cars next to Toyota and Nissan and bigger than Honda.

On the surface that may not seem so bad, but when we think the proposition through we see it carries some serious repercussions. For instance, because of GM's dominance in the U.S. auto industry—they have about half of it—their strategy would give the smaller auto companies, Ford and Chrysler and VW, little recourse but to follow suit and import fully builtup small cars as well.

In other words, when the market leader says, "We give up; we are going to go join them," it gives the smaller companies in that industry little choice but to give in, too. Confronted with that, Chrysler has delayed for 9 months a decision to proceed with the tooling of a subcompact car which is designed to replace our present Omni Horizon models and would be built at Belvedere, Ill., our existing assembly plant there, as we await the outcome of GM strategy.

We have no choice but to adopt a wait-and-see attitude and in the meantime workers in Illinois and in some of our other plants in other States are wondering if they are going to be building cars in 2 years.

If the Japanese and General Motors are free to use the unfair $1,750 advantage, we estimate it could send the Japanese share of the U.S. auto market climbing to 40 percent, and to put that one in perspective, we do have a little micro example of what goes on in a free market with that same $1,750 advantage in our own Puerto Rico. Puerto Rico is not part of the restraint program today. We try to compete against the Japanese in that market and as of the last count the Japanese today have 82 percent of the Puerto Rican market.

Well, let me come back to a more conservative look at all this. With 40 percent of the market share for the Japanese, our auto trade deficit with Japan is estimated to skyrocket from $15 billion to over $27 billion a year.

And finally, the full impact of free importation could wipe out more than half a million American jobs at 3,700 manufacturing facilities around the country, including, I should point out, we estimate 10,000 jobs in Texas.

I do not think that is good policy for America. A much more prudent course, it seems to me, is to negotiate with the Japanese to keep the current restraints where they are at 1.68 million passenger cars a year until such time as the unfair Japanese advantages are eliminated. That would give American automakers the incentive and at least a halfway decent chance of competing with the Japanese in our own small car market instead of handing it over to them lock, stock and barrel.

It would also encourage Japanese automakers to enter more boldly into investment and production deals in the United States and Nissan

and Honda have done already one on a small scale in Tennessee and Ohio. And such an arrangement really would not, I should point out, be much of a burden to the Japanese. In fact, they have done quite well under the present restraints.

While the big three U.S. auto companies lost an average of $1.6 billion per year in each of the last 3 years, the Japanese big three, Toyota, Nissan, and Honda, made $1.4 billion on average during that same 3-year period, and that was with the restraints in effect.

And thanks to a number of loopholes, the Japanese have never really been held to the level of imports that are in fact stipulated by the restraint program. At the time the restraints were originally set at 1.68 million cars, it was expected that Japanese would take about 16.5 percent of the market in a normal 10 million car year. But because of the onslaught of the recession, the domestic market, the U.S. market quickly fell apart and the Japanese share of fixed quota jumped to 23 percent. In effect, that represented a 700,000 unit a year bonus for them. Simply put, if the Japanese had shared in the downturn and held about 16.5 percent of the market, they would not have received that extra 700,000 vehicles a year during that period.

Loophole No. 2 is that the Japanese have never really exported just 1.68 million units because the real number is more like, as well as we can tell, 1.85 million. That is when you count all the four wheel drives and the station wagons and the off-road vehicles that have circumvented the car restraint agreement.

Loophole No. 3 is that there are at least an additional 10,000—and I have seen some numbers closer to 50,000—cars a year that find their way into the U.S. market by way of Guam and Puerto Rico, also circumventing the restraint agreement. They have a term for these kinds of cars. They come in by ship, they get unloaded, they get reloaded, and they come back into the United States. I think it is called touch-and-go maneuvers.

Pointing out these loopholes just further emphasizes the point that continued restraints at the current 1.68 million level are certainly more than fair both to the Japanese and to the United States. They are fair to the Japanese because they would give them continued and substantial access to the most lucrative market in the world, and they are fair to America because they would head off a disastrous effect on job loss in this country while at the same time giving U.S. companies a chance to compete until the really big problems—the undervalued yen and Japanese advantages—are satisfactorily addressed.

In the long term, that is really what we are asking for. We are asking for fairness, not protection. Chrysler will fight for its own markets, but we cannot even begin to fight when our Japanese competitors start out with an unearned advantage of almost $2,000 on an $8,000 to $10,000 car.

Right now, because of these very unfair advantages, the playing field is tilted steeply in favor of the Japanese. Until governmental action is put into place to level the playing field, the jobs of at least half a million Americans rely on keeping the import restrictions in place at the present 1.68 million unit level, and I would go on to say parenthetically, I would hope that in the next round we would count all the vehicles.

I would hope the President and Ambassador Brock recognize just how important this issue is before their visit to Japan. It seems clear that the American public does. In fact, according to a preliminary sampling of a recent poll conducted by Cambridge Reports, it is apparent that a majority of the American public does strongly favor import restraints as a way of promoting stronger American industry. And that same report also indicates that a majority of the public believes that our Government's position on foreign trade will be an important factor in who they vote for in the 1984 elections.

So this issue is not only important, but most timely. I can think of no better quorum than before this committee to express the facts about it. I urge the committee to use its great influence to communicate these facts to the White House and I would hope immediately and before Ambassador Brock enters his negotiations on restraints in Japan this week.

Thank you very much.

[The prepared statement of Mr. Greenwald, together with an attachment, follows:]

Prepared Statement of Gerald Greenwald

Mr. Chairman, Committee Members:

I appreciate this opportunity to appear here today to give you Chrysler's views on the economic problems confronting the U.S. auto industry and the steps that need to be taken to correct those problems.

I came here this morning from Detroit, a city -- which if you've been reading the newspapers lately -- you might think had somehow magically become a boom town overnight. The press these days is full of headlines about robust auto sales, called-back auto workers, and big profits by the Big Three.

I'm not complaining. After four years of near-depression, Detroit is indeed beginning to enjoy a measure of well-earned recovery. At Chrysler, we're especially pleased that we've been able to call back more than 10,000 workers so far this year, in addition to doing well enough that we were able to pay off some very important debts seven years ahead of schedule.

But if I were to end there, as some press reports have, I wouldn't be giving you the full story. The recovery in Detroit is not as strong and certainly not as assured as some would lead us to believe. We're not quite ready to take on boom-town status just yet. Let me give you a couple of reasons why not:

* First, total sales of passenger cars in the United States have not even returned to, much less surpassed,

pre-recession levels. Total sales in the 1983 model year (which just ended at the end of last month) were just 8.8 million units -- including imports, by the way. That's down from the 10.2 million-unit average in the five model-year period leading up to the implementation of restraints on Japanese cars in April 1981.

* Second, working capital and stockholder equity in the U.S. auto industry, both prime indicators of the economic health of any industry, declined $9.4 billion and $4.1 billion, respectively, in the combined 1980-82 calendar-year period. And this was the period the auto industry was supposed to be convalescing from the oil shock of 1979.
* Third, long-term debt in that same period increased $4.8 billion for U.S. automakers.
* And finally fourth, even the U.S. auto industry's much-ballyhooed profits aren't as rosy an indicator as they seem when you put them into perspective.

As I try to tell Chrysler employees every chance I get, as good as our record $310 million profit in the second quarter looked (and it did look good), we lost an average of $350 million for each of ten straight quarters previous. So we need about nine more quarters -- more than two years -- just like the very strong second quarter just to get back to about even. And as far as we can tell, that's pretty much true for the industry as a whole.

But will the industry get the chance to fully recover, to continue to call people back to work, and to fully realize the quality and productivity gains of the last four years (and they have been real and substantial) -- or will the roof come tumbling down upon us again just as we're making repairs on the foundation? That's the real question before us today, as I see it.

There are three issues I think we have to look at that have a real impact on that question. They're all getting a lot of attention -- but not a lot of action, I'm sorry to say -- here in Washington. The issues are energy policy, federal deficits, and trade policy with Japan. All three of these issues can have a life-or-death impact on the U.S. auto industry -- and for that matter, on jobs throughout America, inasmuch as one lost job in the auto industry translates into three lost jobs in the economy as a whole.

And these issues are all interrelated. This country's lack of a concerted federal energy policy set America up for the second oil crisis back in 1979, which gave the Japanese their first firm toehold in the U.S. market. High interest rates, jumping up and down around 20 percent, compounded the problem, sending the U.S. auto industry into a four-year depression from which we are just now beginning to recover.

Now, I had always learned that those who didn't pay attention to their history were doomed to repeat it. In the case of energy, unless governmental actions are taken soon to get the country back on the road to energy independence, then I'm afraid

we could be doomed to a repeat of the two energy crises that rocked this nation's economy in the '70s. It's as simple as that. Even though our energy needs as a country have slacked off a bit, we still import 30 percent of our oil from foreign countries, many of which are either politically or economically unstable. Just how unstable is evident from looking at the tragic events over the weekend in the Middle East.

And just last week, on the tenth anniversary of the first oil embargo, the question on the minds of news commentators all over the country was, "Could it happen again -- a third time?" The obvious -- and terrifying -- answer is, "Yes, it could." In fact, it could happen any day -- and the effect on the U.S. economy, on jobs, and on the U.S. auto industry would once again be disasterous.

How can we prevent that from happening? For some time now, Chrysler has supported an increased tax, either on imported oil or gas at the pump, or both, as the way to take care of the energy problem. Of course, it's tough to get people to listen to any kind of tax proposal in an election year.

But this proposal has an attractive side benefit: for every penny you put on gasoline, you raise a billion dollars in federal revenue. A quarter-a-gallon gas tax would raise 25 billion dollars, which would make a significant cut in our $200 billion-a-year federal budget deficit. That's gotten people's attention. And well it should.

The correlation between large deficits and high interest rates is inescapable. High interest rates, bouncing up and down

to as high as 21 percent, killed off or delayed, by our best estimates, 4.5 million auto sales during the recession. They were a factor in the lay-off of a quarter-million auto workers. They helped send more than 4,000 independent auto dealers around the country right out of business. And they almost ground the American housing industry to a complete halt.

Two-hundred-billion-dollar-a-year deficits, if left unchecked, will again send interest rates out of control in a year or two, I'm convinced of it.

With that conclusion, I guess I'm a member of the Marty Feldstein camp in the Feldstein-Don Regan debate going on in this town about deficits. Well, huge deficits alone may not bring about high interest rates. But huge deficits combined with tight monetary policy certainly will. And, of course, tight monetary policy is what we have in this country, like it or not.

Given that, the only alternative to high interest rates, short of cutting the deficit, is printing more money and ending up with high inflation, and that isn't any good either. That's why it's so important to cut the deficit.

But how?

Well, as we learned from our cost-cutting experience at Chrysler, you have to start someplace. There has to be equal sacrifices all the way around -- getting everybody to act is the only way you can get anybody to act. We found that out too. It's also the only fair way to go about solving the problem.

In Chrysler's turnaround, the "equality of sacrifice" principle was the real key. Everybody gave up something: the

federal government guaranteed the loans, our workers took concessions, our suppliers accepted price reductions and longer payment terms, our lenders restructured our debt at 15 cents on the dollar, our dealers bought debentures, the states in which we do business extended us new loans.

And of course it worked. And quicker than they expected, everybody is being made whole again, including the federal government, which even made a tidy $344 million return on the deal. It's a sad commentary, by the way, to note that the government's $300-plus million windfall only cut this year's outstanding federal budget deficit by one-tenth of one percent. But I think there's a bigger lesson in our experience for how to make big cuts in the deficit -- and maybe for curing our energy problem and promoting real, long-term economic expansion in the bargain.

But for it to work, by definition, everybody has to make sacrifices -- including Congress and the Administration. A gas tax would raise $25 billion annually and a surcharge on imported oil would raise another estimated $15 billion a year.

Beyond that, a five percent cut in Defense spending would take another $15 billion out of the deficit per year. (And that shouldn't be that hard to do, given the reports we've been seeing about cost overruns by Defense contractors. If Chrysler's suppliers can come in line to save Chrysler, surely our Defense suppliers could shape up too.)

And finally, a matching five percent cut in entitlements would deflate the deficit by another $15 billion -- tough to do I

know, but so was cutting our costs in half at Chrysler. Add all those actions up, and the federal deficit could also be cut by almost half.

These are just ideas. I throw them out for discussion purposes. But the cold, hard fact is that the deficit has to be cut, or we're all in trouble. And as a businessman, I know that equal sacrifice does work. Chrysler is living proof of it.

That's deficits and energy -- now trade. Again, they all dove-tail together. High interest rates do have an impact on our negative balance of payments with Japan, by helping to drive up the dollar. But it's like adding insult to injury.

The bigger problem, as we see it, lies with the yen. Because of stringent capital controls, trade controls, and a policy of discouraging foreign investment in Japan, the yen is undervalued 20 to 25 percent in favor of the Japanese. That advantage alone is worth about $800 on the average small car.

Add that to the $950 advantage the Japanese enjoy because their government forgives its 22.5 percent domestic commodity tax on cars destined for export, and you come up with about a $1,750 unearned "windfall" advantage for the Japanese, above and beyond any advantages they may enjoy because of lower wage rates or anything else. This advantage is perfectly legal under GATT, but it isn't very fair.

It isn't fair because these advantages have helped Japanese industry as a whole accumulate a $64 billion trade surplus over the U.S. in the past five years. More than 80 percent of that surplus, $54 billion, is in automotive products alone. Our

automotive trade deficit with Japan, by the way, is estimated to be $15 billion in this calendar year -- that's for just one year.

It isn't fair because, while the Japanese are taking about a quarter of the U.S. market in any given 10-day sales period, American jobs are being destroyed -- not just in the auto industry, but in several American industries. In fact, I'm sure you're all aware of the article in the Washington Post last week in which David Packard, the U.S. Chairman of the U.S.-Japan Advisory Commission, estimated that just the undervalued yen alone is costing the United States at least two million jobs.

It isn't fair because the Japanese are maximizing per-car profits in the U.S. in order to subsidize their operations in Japan, in the Mid East, and in the Third World -- all of which are stagnant markets right for them right now.

It isn't even fair for the Japanese in the long run, because if moderate action isn't taken to level out their unearned advantages, then mounting protectionist sentiment in this country -- and there's plenty of it -- could eventually force harsher action, such as passage of a local content bill like the one now under consideration in the House.

The truth is, American automakers just can't compete against the Japanese in the small-car market with the unfair advantages that they enjoy. Chrysler can't. Even General Motors can't, and that's why GM is attempting to adopt its so-called "Japanese Strategy," a plan that Chrysler has severe reservations about -- not the least of which is that it would in a year turn GM into the third largest U.S. importer of built-up Japanese cars, just behind Toyota and Nissan and bigger even than Honda.

On the surface, that may not seem so bad, but when we think the proposition through, we see it carries some serious repercussions. For instance: because of GM's dominance in the U.S. auto market (they control almost half of it by themselves), their strategy would give the smaller auto companies -- Ford, Chrysler, VW of America -- little recourse but to follow suit and begin importing fully built-up small cars as well.

In other words, when the market leader says, "We're going to join 'em, not fight 'em," it gives the smaller companies in that industry little choice but to give in too. Confronted with that, Chrysler has delayed for nine months development of a subcompact code-named the "P-car," designed to replace our Omni/Horizon models built at Belvidere, Illinois, as we await the outcome of GM's strategy. We have no choice but to adopt a wait-and-see attitude, and in the meantime, workers in Illinois and at some of our other plants in other states wonder if they'll be building cars in two years.

In the long run, the ramifications of GM's strategy could have a devastating effect on the economic and unemployment pictures in this country.

First, we estimate it could send the Japanese share of the U.S. auto market climbing up to 40 percent. (And there's no guarantee it'll stop there. Just take a look at Puerto Rico, which many people say is an automotive microcosm of the U.S., except without any meaningful restraints. The Japanese share of the auto market in Puerto Rico is now over 80 percent.)

With that kind of market share for the Japanese, our auto trade deficit with Japan is estimated to skyrocket from $15 billion to over $27 billion a year.

And finally, the full impact of GM's strategy could wipe out more than half-a-million American jobs at 3,700 manufacturing locations around the country -- including 10,000 jobs in Texas, Mr. Chairman.

I don't think that's good policy for America, industrial or otherwise. A much more prudent course, it seems to me, is to negotiate with the Japanese to keep the current restraints where they are, at 1.68 million passenger cars a year, until such time as the unfair Japanese advantages are eliminated.

That would give American automakers the incentive and at least a half-way decent chance of competing with the Japanese in our own small-car market, instead of handing it over to them lock, stock, and barrel. It would also encourage Japanese automakers to enter more boldly into investment and production deals in the U.S., as Nissan and Honda have done already on a small scale in Tennessee and Ohio.

And such an arrangement really wouldn't be that much of an burden for the Japanese. In fact, they've been doing quite well under the present restraints. Consider these facts:

* While the Big Three U.S. auto companies lost an average of $1.6 billion per annum in each of the last three fiscal years, the Japanese "Big Three" -- Toyota, Nissan, and Honda -- made a $1.4 billion average annual profit. And that was with restraints in effect.

* Fact two: Under restraints, the Japanese have taken advantage of the law of supply and demand and gradually enrichened their product mix to more expensive cars with more expensive options. In fact, the Japanese have increased their revenue $542 per car since the day restraints went intc effect just by the effect of richer product mix alone. Ironically, it's the Japanese, of all people, who are selling a lot of big cars and a lot of 6-cylinder engines in the U.S. today.

* And finally, fact three, thanks to loopholes, the Japanese have never really been held to the level of imports stipulated under the original restraint agreement.

At the time the restaints were originally set at 1.68 million units, it was expected that the Japanese would take about 16.8 percent of the market in a normal 10 million-car year. But the domestic market quickly fell apart and the Japanese share jumped to 23 percent -- the equivalent of a "bonus" of 700,000 extra sales. If the Japanese had shared in the overall volume decline, as did the U.S. companies, they wouldn't have gotten those 700,000 sales. That was loophole number one.

Loophole number two is that the Japanese have never really exported just 1.68 million cars a year into the U.S. The real number is more like 1.83 million. That's when you count all the four-wheel-drives and station wagons and jeep-like vehicles that have circumvented both the car restaint agreement (which the Japanese administer) and the 25 percent U.S. duty on imported

trucks (which the U.S. administers). In other words, because we call them cars and they call them trucks, about 80,000 vehicles a year get a completely free ride into this country.

Loophole number three is that there are at least an additional 10,000 cars a year that find their way into this country by way of Guam and Puerto Rico, also circumventing the restraint agreement. In the islands, they've even devised a term to describe the way these cars hop from ship to shore back to ship and on their way to the States. They call them "touch-and-go" maneuvers.

Pointing out these loopholes just further emphasizes the point that continued restraints at the current 1.68 million-unit level are certainly more than fair -- both to the Japanese and to us. They're fair to the Japanese because they would give them continued -- and substantial -- access to their most lucrative market in the world. And they're fair to America because they would head off a disasterous effect on job-loss in this country, while at the same time giving U.S. companies a chance to compete until the really big problems -- the undervalued yen and Japanese tax advantages -- are satisfactorily addressed.

And in the long term, that's all we're asking for: fairness. I'm not a protectionist. Chrysler will fight for its own markets. But we can't even begin to fight when our Japanese competitors start out with an <u>unearned</u> handicap of nearly $2,000 on an $8,000 to $10,000 product. Right now, because of these very unfair advantages, the playing field is tilted steeply in favor of the Japanese. Until governmental actions level out the

playing field, the jobs of at least half-a-million Americans rely on keeping the import restrictions in place at the 1.68 million level.

I just hope the President and Ambassador Brock recognize just how important this issue is before their visits to Japan in just a few days. It seems clear that the American public does. In fact, according to a preliminary sampling of a recent poll conducted by Cambridge Reports, Incorporated, it's apparent that a majority of the American public strongly favors import restraints as a way of promoting stronger American industry. And that same report also indicates that a majority of the public believes our government's position on foreign trade will be a very important factor in who they vote for in the '84 elections.

So this issue is not only important, but most timely. And I can think of no better forum than before this Committee to express the facts about it. I urge this Committee to use its great influence to communicate the facts to the White House immediately in order to head off what could be a terrible economic disaster for this country.

Thank you very much.

# # #

Measures Concerning the Export of Passenger Cars to the United States

Ministry of International
Trade and Industry,
May 1, 1981.

1. The Government of Japan (GOJ) fully recognizes that the United States Government has formulated an auto recovery program and is implementing the de-regulatory part of that program in order to cope with the difficulty that the U.S. auto industry is facing, and that the U.S. auto industry and the auto workers union will jointly make every effort to renovate the U.S. auto industry as put forth in the various statements they have made to date.

GOJ, assuming that these efforts will be made in the United States and in light of the general situation, has decided to take the measures referred to in paragraph 3 below as very temporary and exceptional measures in order to maintain the free trade system and to develop further the good economic relations between Japan and the United States.

2. Concerning the auto-issue between Japan and the United States, Japan has been cooperating with the United States in line with the so-called "auto package" agreed to in May of last year, which contained the elimination, in principle, of Japanese import duties on auto parts, the promotion of investment into the United States, etc. These measures are steadily being implemented.

Various kinds of cooperation, including joint-venture-relationships, have also been made between Japanese auto companies and the U.S. "Big 3" auto makers, such as the agreement on new cooperative measures by Mitsubishi Motors and Chrysler, and the negotiation of production cooperation between Toyota and Ford.

In addition, specifically regarding auto exports to the United States, the GOJ, recognizing the severe circumstance the U.S. industry is facing, has since last autumn, taken such measures as the forecast of auto exports to the United States done in a judicious manner.

The following measures to be considered are newly introduced in accordance with the purpose of paragraph 1 above and with the understanding that they will keep Japanese exports in line with auto exports into the United States from third countries.

3. GOJ will take the following measures during the maximum period of three years from April 1981 through March 1984, based on the understanding that the next three years are crucial for the U.S. auto industry to recover.

(1) GOJ will obtain monthly reports, during the three-year-period through March 1984, from each company on its passenger car (JAMA classification basis) exports to the United States (as defined to be exported to the fifty states and the District of Columbia) under its authority in the Foreign Exchange and Foreign Trade Control Law to introduce and implement a new monitoring system on passenger car exports to the United States.

(2) During the first year (from April 1981 through March 1982), MITI will restrain the volume of passenger cars to be exported from Japan to the United States by MITI directives issued to individual companies as an administrative measure. The total volume of passenger cars to be exported to the United States will be 1.68 million units.

(3) During the second year (from April 1982 through March 1983), MITI will restrain the volume of passenger cars to be exported to the United States in the same manner. The total volume to be exported to the United States in the second year will be the sum of the export ceiling for the first year and the volume obtained by multiplying the estimated increment of the U.S. car market by 16.5 percent.

(4) In order to guarantee the implementation of the measures mentioned in (2) and (3) above, MITI will promptly take the export of passenger cars to the United States subject to export licensing, under its authority in the Foreign Exchange and Foreign Trade Control Law, should any such necessity arise.

(5) During the third year (from April 1983 through March 1984), MITI will monitor the trend of passenger car exports to the United States through the measure mentioned in (1) above. At the end of the second year, MITI will study, considering the trend of the U.S. car market, whether these export restraint measures should be continued in the third year.

(6) The measures mentioned above shall in any event, expire by March 1984. Further, separate measures will also be taken with regard to the export of pas-

senger cars to Puerto Rico and the export of vans (classified under "commercial vehicle" in Japan Automobile Manufacturers Association, Inc. (JAMA) statistics but as "passenger car" in the United States) to Puerto Rico and the United States.

4. The GOJ expects that the interested parties in the United States will appreciate the measures taken above and will take a cautious attitude toward protectionist moves in the United States. The GOJ also understands that the U.S. antitrust authority has established the view that the above measures will not raise any problems as to antitrust questions in the United States. Japan sincerely expects that the U.S. auto industry and the vital U.S. economy will recover through the efforts of the United States itself.

AUTOMOTIVE TRADE RESTRICTIONS

(by country)

COUNTRY	DOMESTIC CONTENT REQUIREMENTS* Yes	DOMESTIC CONTENT REQUIREMENTS* No	PASSENGER CAR TARIFF RATE BOUND UNDER GATT	QUANTITATIVE IMPORT RESTRICTIONS	EXPORT REQUIREMENTS
NORTH AMERICA					
Canada		x	12.1%-1983 11.4%-1984 10.7%-1985 9.9%-1986 9.2%-1987	Japan voluntarily restrained exports of passenger cars to Canada to 174.213 units for April 1, 1981 to March 31, 1982 and to 170, 789 units for April 1, 1982 to March 31, 1983. An interim understanding has been reached for the first six months of 1983 based on a level of 79,000 cars.	None
United States		x	Phased-in reduction: 2.8% in 1983 to 2.5% by 1987	Japan voluntarily restrained exports of passenger cars to 1,680,000 units annually for fiscal years 1981/82 through 1983/84.	None
WESTERN EUROPE					
Belgium		x	10.5%	In 1981, Japan voluntarily restrained exports to 109,000, 7% below 1980. This arrangement was reportedly also extended to 1982.	None
France		x	10.5%	Passenger car imports from Japan limited to 3% of market through informal administrative measures.	None
West Germany		x	10.5%	In 1981, Japan agreed voluntarily to restrain passenger car exports to the 1980 level plus 10% growth. Although this limit was not actually tested due to market conditions, the arrangement was reportedly extended into 1982.	None

* See explanatory footnotes.

COUNTRY	DOMESTIC CONTENT REQUIREMENTS* Yes	No	PASSENGER CAR TARIFF RATE BOUND UNDER GATT	QUANTITATIVE IMPORT RESTRICTIONS	EXPORT REQUIREMENTS
Italy		x	10.5%	Passenger car imports from Japan limited by quota to 2,200 cars per year. Italy retained this quota on Japanese cars under Article 35 of the GATT as a result of agreement when Japan acceded to the GATT in 1955.	None
Spain	x		64% - Bound Rate; 50% - MFN rate (for GATT members); 36% - EEC countries	Although import quotas have been phased out, import licences are still required.	Agreements with companies (e.g., Ford and GM) usually require that 2/3 of production be exported.
Portugal	x		1400-1700cc-60% 1701-2000cc-90% 2000cc + -120%	Complex system of quotas by company to be phased out by 1985.	None
United Kingdom		x	10.5%	Industry to industry agreement to limit Japanese auto imports to 10-11% of the market.	None
Sweden		x	10%	None	None
The Netherlands		x	10.5%	None	None
CENTRAL AND SOUTH AMERICA					
Mexico	x		100% (not a GATT member)	Generally, auto parts and vehicles can only be imported under stringent import licensing system tied to local content régime.	For vehicle producers, difference between minimum local content (50% for cars and 65% for commercial vehicles) and recommended local content of 75-90% must be generated by exports.

* See explanatory footnotes.

COUNTRY	DOMESTIC CONTENT REQUIREMENTS* Yes	No	PASSENGER CAR TARIFF RATE BOUND UNDER GATT	QUANTITATIVE IMPORT RESTRICTIONS	EXPORT REQUIREMENTS
Venezuela	x		120% (not a GATT member)	Imports of 8-cyclinder autos and autos of a type not produced locally are prohibited. Other imports subject to licence.	Duty-free entry of auto parts is permitted on a dollar-for-dollar basis equal to parts exports.
Colombia	x		180%	Import licences required.	
Brazil	x		185-205% (not bound by GATT)	Import licences required.	Import licences (e.g., for components) are based in part on export performance commitments.
Chile	x		Tariff rate scheduled to decline from 50% currently to 10% by 1986	Import licences required.	When producer's local content is less than 30%, they must export sufficient products to reach 30% level.
Argentina	x		55%	Imports by company are limited by an export/import ratio requirement for intra-corporate trade.	Export requirements apply only to intercompany parts shipments; exports must be 3 times the import level.

* See explanatory footnotes.

COUNTRY	DOMESTIC CONTENT REQUIREMENTS* Yes	No	PASSENGER CAR TARIFF RATE BOUND UNDER GATT	QUANTITATIVE IMPORT RESTRICTIONS	EXPORT REQUIREMENTS
ASIA/PACIFIC					
Australia	x		(not bound) 57.5%	Quota action taken under Article 19 of the GATT (temporary emergency import relief action) limits imports of autos to 20% of existing market. Some liberalization of this quota is scheduled under a new government assistance program for the industry.	Under Export Facilitation Scheme, car producers allowed to credit exports against local content requirements. The credit limit is now 6.25% and will be 15% by 1987. Export credits can be used to import components duty-free.
New Zealand	x		55% - CBU 45% - CKD	Strict import licensing régime which mandates the use of local components in domestic CKD production. Import licences for autos ensure CBU imports take only 4-5% of market.	None
Japan		x	3%	None	None
South Korea	x		80%	Autos and components are on "restricted list" with stringent import licence system.	None
India	x		(not bound) 100%-140%	Automobile imports prohibited under licence system with rare exceptions.	Import licences for components are dependent to some extent on export performance.

* See explanatory footnotes.

COUNTRY	DOMESTIC CONTENT REQUIREMENTS*		PASSENGER CAR TARIFF RATE BOUND UNDER GATT	QUANTITATIVE IMPORT RESTRICTIONS	EXPORT REQUIREMENTS
	Yes	No			
Indonesia	x		(not bound) 200% - CBU 100% - CKD (plus 20% imports sales tax on both CBU and CKD autos)	Import licences required.	None
Philippines	x		(Not bound) 30% CBU	Import licences required.	None
Malaysia		x	60-100% depending on price	Import licences required.	None
AFRICA					
South Africa	x		100%	Import licences restrict imports to only top end of market (e.g., Rolls Royce).	None

* See explanatory footnotes.

Source: Compiled by Department of ITC/DREE from Canadian consular reports and other sources.

EXPLANATORY FOOTNOTES ON DOMESTIC CONTENT REQUIREMENTS

Spain.—A 1979 government decree sets out content and export requirements for two categories of auto manufacturers: (1) Producers who commenced production in Spain prior to November 30, 1972 (SEAT, FASA-Renault, Citroen-Hispania and Talbot) have a local content requirement of 60 percent of factory cost and the value of exports of finished vehicles and components must exceed by 20 percent the value of vehicles and components imported. (2) For future producers or those that commenced production after November 30, 1972 (e.g., Ford, GM): (a) local content must be at least 55 percent of factory cost; (b) the value of finished vehicle and component exports must exceed by 20 percent the value of vehicles and components imported. Finished vehicles must be at least two-thirds of annual production.

Portugal.—Portuguese content regulations provide that assembly of motor vehicles is subject to the use of certain minimum percentages of domestic components to be scaled down from 1980 to 1984. The minimum content for trucks over 2,000 kg will remain at 20 percent for an indefinite period.

Mexico.—The 1977 Automotive Decree established two sets of local content requirements: (1) minimum local content of 50 percent for cars and 65 percent for commercial vehicles to be met for each individual model of vehicle based on components incorporated, i.e., excluding assembly costs; and (2) recommended local content levels of 75 percent for autos and 85 percent for commercial vehicles. The difference between the recommended and minimum content must be generated by exports; 50 percent of total exports required to be from local independent parts manufacturers. The assembly cost portion of content is not included in calculations and vehicle exports are also disallowed from export credits. Content requirements also disallowed from export credits. Content requirements also apply to parts manufacturers, who must normally have a minimum of 80 percent local content in order for the vehicle companies to get credit for purchasing these parts. Mexico also has requirements for the auto assemblers in the following areas: export compensation, lists of mandatory local parts, foreign currency budgets, and mandatory advance notification of parts requirements.

Venezuela.—Local assembly plants must incorporate a minimum of 43 percent Venezuelan auto parts in their cars at present, increasing to 59 percent in 1985. Although the plan is to achieve 90 percent by 1990, this target may prove elusive and it is more likely that 65–70 percent local content will be attained.

Colombia.—Local content requirements of 33 percent are enforced by prohibitive customs duties, as well as import licenses.

Brazil.—Domestic content regulations are in effect but are now individually negotiated with each firm, with factors such as the individual company's balance of payments being taken into account (the local content requirement is usually 95 percent).

Chile.—Local content requirements were as high as 75 percent but have now been reduced to a 30 percent level. If local content is less than 30 percent, the local assemblers must export sufficient products to reach the 30 percent. Chile is currently liberalizing its restrictive import régime on a phased basis in order to give local industry time to become competitive or discontinue operations.

Argentina.—Domestic content requirements vary from model to model and are constantly adjusted in line with local production (recent requirements were for 88 percent content in cars and 75–88 percent in commercial vehicles). Parts are imported according to the needs of the industry and the replacement market, but subject to the local content requirements as well as the export/import ratio requirements that exist for intra-corporate trade where exports are required at three times the import levels.

Australia.—Vehicle producers must maintain 85 percent company average local content in order to obtain relief from prohibitive duties on imported components. Under a recently introduced export facilitation scheme, local manufacturers are also allowed to earn duty-free imports for components on a dollar-for-dollar basis, by exporting Australian-made components. The limit of these credits will be 7.5 percentage points of total content by 1984 and 15 percent by 1987. If an assembler used this export scheme to its fullest extent in 1987, therefore, the company could reduce its required in-vehicle domestic content to 70 percent.

New Zealand.—The automotive industry in New Zealand has developed under the influence of a strict import licensing régime and a CKD Ministerial determination system that mandates what local components must be included in local CKD production and which components can be imported as part of a CKD pack.

The import system has been alternately tightened and loosened depending on several factors, including balance of payments considerations, the domestic parts industry capability and the ability of domestic assembly facilities to meet consumer demand.

South Korea.—The degrees of local content required under Korean law range from 90 percent for compact cars to just over 60 percent for medium size cars. Under a recently announced government "localization" plan in the various industries, domestic content in the auto sector is to reach 95 percent by 1986. The Korean local context requirements are based on in-vehicle content and allow no offset or credit for parts exports, although exports are strongly encouraged through a system of company targets as well as in administration of the import license system.

India.—India reportedly has very high domestic content requirements for their auto assemblers (close to 100 percent in most cases). The Indian vehicle assembly industry is limited to domestically controlled firms, and import licenses for both vehicles and parts are issued on only a limited basis.

Indonesia.—Progressively stronger local content regulations are being instituted although lags in component manufacture are slowing implementation. Although there are no fixed domestic content requirements in percentage terms, government regulations require that assemblers use local components whenever they are available and suitable for use.

Philippines.—The current required average domestic content is 62.5 percent, which is met through incorporation of local componentry into CKD vehicle assembly operations and administered through the import licensing régime.

South Africa.—The minimum local content requirement for cars and light trucks is 66 percent by weight while heavy commercial vehicles must have 35 percent local content by weight (as well as engines, gearboxes and tackles of local manufacturer).

Senator BENTSEN. Thank you, Mr. Greenwald.

Let me ask you about the differential between the yen and the dollar. Mr. David Packard, who is the President's representative on the United States-Japanese Advisory Commission, says that the proper value of the yen to the dollar, instead of being 232 to the dollar, ought to be about 200. And he goes on to state that this overvalued dollar gives the Japanese a 20 percent or so price advantage.

You have commented at some length about what we ought to be doing here to get the deficit and interest rates down in order to change the currency exchange rate on the dollar side.

But, how about the yen side? Do you see Japanese monetary officials trying to do something to alleviate this problem? Do you see any sign that they are consciously trying to boost the yen to something that most economists feel would be a more correct value?

Mr. GREENWALD. Mr. Chairman, on the contrary, I continue to see examples of the Japanese taking steps which, if anything, would weaken the yen rather than strengthen it. While we are worried about our current interest rates being too high and creating the strong dollar that exists, the Japanese are at the moment about to lower their interest rates further in an effort to stimulate their domestic economy, and the added result of that, of course, is that it makes their temptation even greater to convert yen into dollars further weakening potentially the yen.

I have been told over and over again that they do seem to have the ability to manage the yen. Someone suggested the way to see it get stronger is to have our President and their Prime Minister meet not once a year or once every other year, but once a month because—and it is happening before our very eyes again—every time they have a meeting, the yen strengthens and then weakens again 3 weeks later. It is now starting to strengthen.

Senator BENTSEN. That is not very encouraging.

Mr. McCammon, what would have happened to your industry had you not had the voluntary limitations on the export of automobiles by the Japanese? What would it have meant in the way of U.S. jobs? What would it have meant insofar as foregone capital investment since the restraints were imposed?

Mr. MCCAMMON. In terms of U.S. jobs, there is about one job for each five vehicles produced as far as the whole U.S. economy is concerned. That includes not only autoworkers but also the ripple effect.

So had there been, say, another 500,000 Japanese cars come in, there would have been another 100,000 fewer jobs in the country.

In terms of what it meant to the auto companies, we just came off of a period 3½ years when the cash outflow, combined for the several companies, was $18 billion, a huge outflow that just could not be repeated again. We have to rebuild our balance sheets, as we have stated.

At the same time, we were increasing our expenditures by 80 percent in the last 4 years over the prior 4 years in order to produce the most fuel efficient products and high quality products that we could.

So at the very time we were spending record amounts, there was this drain not only from the recession but from the imports.

Had it been worse, more people would have been out of work, fewer taxes collected, and obviously we would have had much greater difficulties supporting the capital expenditures for our new models.

Senator BENTSEN. Do you have any current figures regarding productivity in the automobile industry of the Japanese as compared to the United States automobile industry?

Mr. MCCAMMON. We think their productivity is better now. One thing that contributes a lot to that is the fact that their volume has been increasing every year. It is much easier to have high productivity when you have the volume going up every year, as they have had, than to have volume declining as we have had—over the last several years their volume has gone up about 30 or 40 percent. Ours has gone down 30 or 40 percent. Naturally, their productivity would improve.

I think we probably started fairly even back in the 1977–78 period. Their productivity improved, however, faster than ours, partly due to volume, partly due to other factors. We have been making significant improvements recently in the productivity area, closing the gap compared with the Japanese, but we believe they still have an edge.

Senator BENTSEN. Mr. Greenwald, earlier I cited the import controls which exist abroad on Japanese vehicles—the Germans and British at 10 to 12 percent; the French at 3 percent; Italy at 2,200 vehicles; and Spain with no imports permitted.

Do you see any movement in those European countries to abolish those limitations?

Mr. GREENWALD. No, I do not, Mr. Chairman.

Senator BENTSEN. Do you see any kind of movement on those percentages?

Mr. GREENWALD. The best we know, there is an expectation both by the European countries involved and the Japanese that the current level of restraints will continue in Europe. Our neighbor north of us, Canada, just finished and has in place restraints which are held at the same levels as they were 2 or 3 years ago.

Senator BENTSEN. Do you see any additional increase in capacity of production in Japan?

Mr. GREENWALD. The best we know, the Japanese have substantially more capacity today in place then they are presently producing and exporting.

Senator BENTSEN. Well, if you have those kind of limitations remaining in place, where is the additional domestic Japanese capacity going to go? Can the domestic market handle it?

Mr. GREENWALD. At present, the Japanese domestic market is not buoyant enough to absorb their expectations of production that they are planning for the next couple of years and obviously what they are looking for is the biggest and most lucrative market in the world left to them, and that is the U.S. market.

Senator BENTSEN. Gentleman, as you know there is a domestic content limitation in Spain, and your firms have generally supported a domestic content bill in the Congress. I think I may be one of the few free traders left around here, so my question is, do the voluntary export limitations act : an alternative to domestic content as least for your industry?

Mr. GREENWALD. We see them as the best alternative to dealing directly with the yen-dollar relationship and the tax advantage. We see restraints as a better answer than local content and having many of the same effects.

If the Japanese were to finally understand that restraints are going to be in place at the 1.68 million level for some time to come, we believe they would more aggressively invest in the United States and build cars in the United States and do it in a more flexible way for them than a local content law would require.

Senator BENTSEN. Gentlemen, that buzzer you heard a while ago is a vote call. I have a Pavlovian reaction to those buzzers [laughter], and I am going to attend that vote. That is where Congressman Scheuer went earlier. He went to the House to vote. We will proceed upon our return, and move on to the next witness at that time. I am most appreciative of your testimony.

Mr. MCCAMMON. Thank you.

Senator BENTSEN. Thank you. We will recess and I should be back here within 10 minutes.

[A short recess was taken.]

Senator BENTSEN. Our next witness will be Mr. McElwaine, who will be representing the American International Automobile Dealers Association. Mr. McElwaine, we are very pleased to have you here, and if you will proceed, sir.

STATEMENT OF ROBERT McELWAINE, PRESIDENT, AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

Mr. MCELWAINE. Thank you, Mr. Chairman, and thank you for this opportunity to present the viewpoint of the 7,000 American businessmen who sell and service imported automobiles and their 165,000 American workers.

I realize that our opinions may be like swimming upstream after what has been heard here this morning, but I believe they also represent the viewpoints of a lot of American consumers.

I would first like to respond to some of the statements that have been made this morning by previous witnesses. I think almost every witness reiterated what has become an almost popular myth today about the unfair advantage enjoyed by the Japanese manufacturers in the production of automobiles. This advantage is quoted at everything from $1,500 to $2,000, and yet we find that the Japanese cars are selling in the United States and in the world market at the same and competitive prices as comparable American made products. In fact, right at the present time in the American market, the domestic product seems to have a slight price advantage at actual retail prices.

Now if they indeed have this cost advantage, then it would stand to reason that they must be making tremendous profits, it would seem, since they are not charging any less for their products. Yet we look at the annual reports of the various companies involved and we find that the Ford Motor Co. this year will make a greater after-tax profit than both Toyota and Nissan combined. We find that the Chrysler Corp., the smallest and weakest of the Big Three, made nearly as much money in 90 days this year as the Nissan Corp. made in the entire 360 days of its year.

Obviously, if this cost advantage is not showing up in price and it is not showing up in profits, there must be a great deal less to it than meets the eye.

I might also add that the General Motors Corp. made more money in one quarter than the Toyota Corp. made in an entire year.

This morning's Washington Post has a story that points this up. "General Motors Earnings Soar" is the headline. General Motors had a 470-percent gain in its third quarter earnings this year. They earned $737 million, which is an all-time record for that particular quarter. The story goes on to say that the Ford Motor Co. is expected to report earnings of between $250 million and $350 million, while Chrysler is believed to have earned between $70 million and $100 million in the third quarter. All of these are record profits for that particular quarter.

We have also heard a great deal about the unfair tax advantages that the Japanese automobiles enjoy. The truth is—and this is a new study just done recently—that there is a higher tax burden on Japanese made cars than there is on American made cars, probably due to the fact that the Japanese corporate profits tax is double the American corporate income tax.

Another point made frequently this morning was that the 1.68 million quota on Japanese cars was conceived of as a percentage of the market and that its intention was to restrict the Japanese to 16.8 percent of the American market.

Now I can speak with some authority on this, because I was in Tokyo with the chairman of our organization in April 1981, meeting with MITI and meeting with the Japanese automobile manufacturers at the time this quota was negotiated. The 1.68 million figure was arrived at by averaging total Japanese sales in the U.S. market in the 3 years preceding 1981. There was never any discussion of share of market or percentage of market or what the U.S. market was expected to be. They simply took the level of sales for 3 previous years and said, "We will not exceed that for the duration of the quota."

And I think to say that there has been some 700,000 unit windfall for the Japanese as a consequence of the fact that American car sales declined so rapidly is essentially unrealistic.

When Congress and the administration pressured the Japanese into imposing quotas on automobiles in 1981, they did so on the assumption that domestic manufacturers were going to use this period of grace and a period of reduced competition to regain their lost market share and to increase their volume, which would thereby create more employment and put more UAW members back on the assembly line.

Instead, the automakers went the other way. They took advantage of the quotas to raise their prices, creating the sticker shock of 1981 and 1982. According to Wharton Econometrics, since the limit on Japanese car shipments went into effect, the average new car selling price in the United States has jumped by nearly $2,600. That is an increase of 35 percent or twice the Consumer Price Index for the same period of time. And Wharton further estimates that $1,000 of that $2,600 increase was due solely to the inflationary effect of the limit placed on Japanese shipments.

I think the most significant part of the Wharton findings was that the price increases generated by these import restrictions actually had the effect of sharply reducing domestic car sales. Wharton says that these new car price increases reduced domestic car sales far more than did either gasoline price increases or high interest rates. Wharton estimates that price increases reduced domestic car sales by 480,000 units.

If you translate that into jobs, using the same kind of rule of thumb that we have used here earlier this morning, you are talking about 34,000 jobs that were actually destroyed by the quotas on Japanese automobiles and the resulting higher prices.

Cutting prices is what is really needed and prices will only be cut when there is competition. Cutting prices would bring back into the marketplace those consumers who cannot or will not pay the present prices for automobiles. I think General Motors, Ford, and Chrysler might well continue to make the same profits that they are making today if they cut their prices, but they would have to sell a lot more cars to do so.

This, in turn, would certainly create more jobs and help the general economy a great deal more than the present restraints would.

Back on June 16, 1980, the chairman of the Chrysler Corp., said what the industry needed was some breathing room. He said, "In 2 years, the entire industry will be ready to take on the challengers in fuel efficiency, quality, and performance."

Well, it has been 3 years since that statement was made and certainly during that time the domestic industry has revitalized itself completely. Today, they are in the midst of a robust and sustained recovery. Domestic car sales are 20 percent ahead of last year. Imports have gained less than 10 percent. Domestic car sales are running at an annual rate in excess of 7 million cars, in contrast to 1982's 5.8 million sales.

Japanese car sales for 1983 will account for less than 18 percent of the market, in contrast to the 22 percent they had last year.

And the current sales are actually understanding the strength of the market since the domestic manufacturers have used a very cautious production schedule that has created shortages in almost every line of cars they have. Cars are on allocations for most dealers today and, consequently, dealers' gross profits are at an alltime record rate.

The U.S. manufacturers are going to produce 2 million units in the fourth quarter of 1983, 60 percent more than in last year's final quarter, and getting near to their 1978 record of 2.3 million.

Most importantly, Detroit is making more money than at any time in its history. According to Paine-Webber, combined Big Three profits for 1983 will be $5.34 billion, which exceeds the 1977 record by about $250 million.

What is astonishing about this figure is that the manufacturers are going to achieve this incredible earnings level while selling 2 million fewer cars they did in 1977. In other words, their profit per unit is at an alltime record level. The Wall Street Journal estimates that General Motors, after reaching their break-even point, is making $3,000 a car on every car they sell. Add to that the $2,000 that the dealers are making on these cars because of the short supply situation, and the consumer is paying $5,000 in profits on a $10,000 automobile today.

I would like to talk very briefly about the effect of these restraints on employment in the industry. The experience gained through 3 years of a Japanese voluntary restraint agreement has indicated that these restraints, rather than creating jobs, have actually reduced the number of employeed workers in the automobile industry.

As I said earlier, this represents about 34,000 jobs which have not been created or have ceased to exist in the industry because of the higher prices brought about by the lack of price competition.

The solution to unemployment in the automobile industry is greater production, Well. you can only have greater production by lower prices and bringing more people into the marketplace. The domestic manufacturers, unfortunately, seem to want to go the other way.

Despite their record profits, they have already announced substantial price increases for their 1984 model and by ending "buy" incentives such as rebates, subsidized interest rates and temporary price cuts, they have already raised prices on a de facto basis.

We heard a little earlier this morning about the plan of equality of sacrifice, which the Chrysler Corp. had installed in order to make their marvelous turn-around. The greatest sacrifice, it seems to me, has been made by the consumer who is paying at least $1,000 more for every car he buys. That is an unnecessary add-on. Nobody consulted with the consumer as to his sacrifice, I am afraid, but he still seems to be making it.

In 1958, Walter Reuther pleaded with the Detroit Big Three to cut automobile prices. He offered to reduce labor costs proportionately if they would do so. It is almost needless to add that his plea fell on deaf ears. But this enlightened president of the United Auto Workers realized lower prices meant greater production and therefore more jobs. Today, the United Auto Workers is boasting of their new contract with the Chrysler Corp. which will raise wages and fringes by $2 an hour and bring the average price of an assembly line workers' total wage package to $26 an hour by 1985. Anyone with a calculator can figure out that for a 40-hour week, 50 weeks a year, that is in excess of $50,000 a year for assembly line workers.

None of this wage-price-profit spiral would be possible without the restraints on import competition. The Japanese voluntary restraint agreement has now become a battleground for an unseemly and disturbing struggle between the domestic manufacturers as each attempts

to turn this quota to his own advantage. As usual, the public is expected to pay for this continuation of the VRA.

We have had 100,000 auto workers recalled since the first of the year. Indefinite layoffs in the industry are down to 137,000, the lowest point in 3 years, but industrial policies of the manufacturers are holding down employment even more. Additional volume is largely being achieved through overtime rather than by adding additional shifts, which would mean bringing more workers back and adding their benefit packages to the total cost.

In the face of historically high profits for the domestic auto manufacturers and the rehiring of 100,000 industry workers since January, the administration has now requested the Japanese Government to continue quotas on automobile exports to the United States for a fourth year at a level not to exceed 1.8 million units. With no commitment on the part of industry or labor to exercise restraint in wages or prices, this action guarantees the American consumer is going to pay even more exorbitant prices for transportation than they already have been as a consequence of the absence of price competition from Japanese manufacturers.

Our association estimates that the fourth year of quotas will cost the American car buyer $6 billion in 1984 if the Japanese Government accedes to this request. Continuation of the quotas also means that fewer cars will be produced in the United States in the coming year than would have been manufactured in their absence. The administration action, therefore, will result in fewer UAW members returning to work than would have under a free market condition.

Higher prices for 1984 models seem to be the inevitable consequence of a continuation of the quotas, while adding to the already record profits of Detroit's Big Three. These prices will drive more prospective customers from the showrooms, further limiting both production and employment.

Finally, Mr. Chairman, of the greatest concern to our dealers is the prospect that the allocations for this quota are going to be further divided up in order to provide Japanese made cars for sale through General Motors dealers. We have consulted with our attorneys on this situation and it is our opinion that to continue restraints on the supply of merchandise going to franchised Japanese-make dealers in this country, while permitting an increase in shipments for distribution through competing General Motors dealers, would constitute an unfair restraint of competition and, should such discriminatory allocations evolve, AIADA would seek whatever remedies are available to us.

[The prepared statement of Mr. McElwaine follows:]

Prepared Statement of Robert McElwaine

Background

In May, 1981, the Japanese Minister of Trade and Industry announced that Japan voluntarily would restrain its exports of automobiles to the United States to 1.68 million units annually. The agreement was for a period of two years, with the understanding that a third year of restraints would be considered if the condition of the United States automobile industry in 1982 so indicated.

The restraints resulted in a reduction of Japanese auto exports to the United States of 140,000 units annually from 1.82 million sold in the year preceding the restraints. More importantly, they eliminated any growth potential for Japanese cars in the American market for a period that has turned out to be three years.

The agreement also provided that the Japanese would be entitled to increase their shipments by 16.5 percent of any increase in the total U.S. auto market over the period preceding the imposition of quotas. This provision has not come into play, since early in 1982, the Minister announced that the quotas for the second year would be continued at the 1.68 million level, due to the continuing problems of the American industry. The matter of the third year of restraints was left unresolved then.

In January, 1983, after a conference with U.S. Trade Representative William Brock, the Minister announced that he had exercised the option to continue the restraint agreement for a third year, also at the 1.68 million level, and that the quotas would then expire, as scheduled, on March 31, 1984. The third year extension of quotas was generally hailed by the U.S. government and in the press of this country as indicative of a Japanese spirit of cooperation. Almost no mention was made of the Minister's statement that the quotas would expire on schedule. Perhaps, because this was totally expected.

Then, on the first of July, 1983, the newly appointed Minister of Trade and Industry, Mr. Uno, during a meeting with the Japanese Automobile Manufacturers Association, responded to a question concerning the quotas, by reiterating the January statement of his predecessor that the quota limitation agreement had been for three years and that it expired on March 31st, 1984.

Although Mr. Uno was repeating the same statement that had been made in 1981, in 1982 and in January, 1983, the reaction of protectionists in Congress and some of the American press was as though a bombshell had been dropped. One Senator described the statement as, "another Pearl Harbor!"

The Washington Post, on the other hand, has raised the question, why does the American industry still need this protection, after three years of quotas?

From the standpoint of the Japanese, as America's largest overseas customers, enforced automotive quotas would simply restrict them to an ever-shrinking share of a growing American market. Quotas already have reduced the Japanese share of market from 22.4 percent in July of 1982 to little more than 19 percent in July of this year. On an annualized basis, the 1.68 million Japanese quota works out to only 17.6 percent of the projected 1983 U.S. auto market. While these quotas remain in place,

there would appear to be little incentive for the Japanese to lift their own agricultural import restrictions.

Establishment of a new quota system to replace the expiring one in 1984 would perpetuate what has become a consumer-funded subsidy for American corporations already making substantial profits and for UAW members, who are among the highest paid workers in America.

The State of the Domestic Industry

On June 16, 1980, the Chairman of the Chrysler Corporation, in asking for "breathing room" for the domestic auto industry, said, "In two years, the entire domestic industry will be ready to take on the challengers - in fuel efficiency, quality and performance."

In the three years that have passed since that statement, the domestic manufacturers have, indeed, managed to become competitive and the industry today is in the midst of a robust and sustained recovery. Domestic car sales are twenty percent ahead of last year, while imports have gained less than ten percent.

Domestic car sales are running at an annual rate well in excess of seven million cars, in contrast to 1982's 5.8 million sales. Japanese car sales for 1983 will account for approximately 18 percent of the market, in contrast to the 22 percent they held a year ago.

Current sales actually understate the strength of the market, since the domestic manufacturer's cautious production schedules have created product shortages in almost all lines. Domestic dealers report that some popular models will be on strict allocations for the balance of 1983. Dealers' gross profits per unit are at all-time record rates.

U.S. automobile production in the fourth quarter of 1983 will near two million units, more than sixty percent higher than last year's final quarter and nearing the 1978 fourth quarter record of 2.3 million.

Most importantly, Detroit is making more money than at any time in its history. According to Paine-Webber, combined Big Three profits for 1983

will reach $5.34 billion, exceeding the 1977 record of $5.136 billion. Astonishingly, the manufacturers will achieve this incredible earning level while selling two million fewer cars than they did in 1977.

Obviously, the domestic makers are realizing by far the greatest per-unit profit in their history. The Wall Street Journal estimates that GM, after reaching its break-even point, is making a $3,000 profit on every car it sells.

Effect of Trade Restraints on U.S. Industry Profits

When Congress and the Administration pressured the Japanese into imposing quotas on their auto exports in 1981, they did so in the assumption that domestic manufacturers would use this period of reduced competition to regain lost market share and to increase their volume, thereby creating more employment. Instead, the auto makers took advantage of the quotas to raise prices, creating the "sticker shock" of 1981 and 1982. According to Wharton Econometrics, since the limit on Japanese car shipments went into effect, the average new car selling price has jumped by nearly $2600, an increase of 35 percent.

This is more than twice the increase in the Consumer Price Index and illustrates how restricting imports raises prices. Wharton estimates that $1000 of the increase is due solely to the inflationary effect of the limit on Japanese shipments.

The most significant of the Wharton findings is that the price increases generated by the import restrictions sharply reduced domestic car sales. New car price increases, asserts the Wharton study, reduced domestic car sales more than did gasoline price hikes or high interest rates. Wharton estimates that price increases reduced domestic car sales by 480,000 units.

The Detroit policy of selling fewer cars at greater profits is keeping consumers out of the marketplace. Price competition from the Japanese auto

manufacturers, a factor removed from the U.S. market by the quotas, could force American manufacturers to reduce prices to the consumer and their astronomical per-unit profits.

Cutting prices would bring back into the marketplace those consumers who cannot, or will not pay the present prices for automobiles. GM, Ford and Chrysler might well continue to make the same profits, but they would have to sell more cars to do so. In turn, this would create more jobs.

Employment and Import Restraints

The experience gained through three years of the Japanese "voluntary" restraint agreement has indicated that restraints on imports, rather than creating jobs, have actually reduced the number of employed workers in the auto industry. Wharton Econometrics says that price increases resulting from the Japanese quotas have reduced domestic car sales by 480,000 units. According to industry statistics, these lost sales would have provided an additional 34,000 jobs* for American workers.

The solution to unemployment in the auto industry is greater production. Greater production can only be brought about by lower prices, which will bring more people into the marketplace, forcing a demand for higher production.

The domestic manufacturers, however, seem to want to go the other way. Despite their record profits, they have announced substantial price increases for 1984. By ending buyer incentives such as rebates, subsidized interest rates and temporary price cuts, they already have raised prices on a de facto basis.

Their aim seems to be to sell fewer and fewer cars at greater and greater profit - and let the Japanese take over the low profit segment of the market.

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* Based on Congressional Research Service studies.

In 1958, Walter Reuther pleaded with the Detroit Big Three to cut automobile prices and offered to reduce labor costs proportionately. This enlightened president of the UAW realized that lower prices meant greater production and, therefore, more jobs. Today, the UAW is proud that its latest negotiations have raised the labor cost for Chrysler by two dollars an hour, which Chrysler will recover by raising its prices.

None of this wage-price-profit spiral would be possible without the restraints on import competition. The Japanese Voluntary Restraint Agreement has now become the battleground for an unseemly and disturbing struggle between the domestic manufacturers, as each attempts to turn the quota to its own advantage. As usual, the public is expected to pay for the continuation of the VRA.

The domestic manufacturers' determination to hold down employment even when it means foregoing increases in sales volume has created shortages in many lines of Detroit automobiles. Domestic dealers report that popular models are on strict allocation for the balance of the calendar year. So few 1983 models are left in stock that dealers are delivering 1984 models long in advance of their official introduction.

Although nearly 100,000 auto workers have been recalled since the first of the year and indefinite layoffs are at their lowest point in three years, industry policies are holding down the level of employment in the industry. Additional volume is largely achieved through overtime, rather than by adding additional shifts, which would mean bringing more workers back and adding their benefit packages to the total cost.

The Present Situation

The debate over a new Japanese voluntary restraint agreement has been complicated by politics and the efforts of the Big Three American auto producers to turn the restraints to their individual company's benefit. Ford

and Chrysler want the restraints made more stringent and extended for a longer period of time, so they can continue to enjoy the record per-unit profits they are making in the absence of price competition from Japanese makes.

General Motors, on the other hand, has asked that the quotas be retained at their present level - 1.68 million units - until March 31, 1985, but with a special exemption permitted Isuzu and Suzuki, so they can ship a combined total of 300,000 additional cars to GM, for sale through GM dealers. Such a request is a stunning example of corporate pursuit of special interest through government intervention.

Conclusion

In the face of historically high profits for the domestic auto manufacturers and the rehiring of 100,000 industry workers since January, the Administration has requested the Japanese government to continue quotas on automobile exports to the United States for a fourth year at a level not to exceed 1.8 million units.

With no commitment on the part of industry or labor to exercise restraint in wages or prices, this action guarantees that American consumers will pay even more exorbitant prices for transportation than they have already been subjected to as a consequence of the absence of price competition from Japanese producers. AIADA estimates that the fourth year of quotas will cost the American car buyers six billion dollars in 1984, if the Japanese government accedes to the request.

Continuation of the quotas also means that fewer cars will be produced in the United States in the coming year than would have been manufactured in their absence. This, of course, means that the Administration action will result in fewer UAW members returning to work than would have under a free market condition. Wharton Econometrics has estimated that higher prices of

domestic cars due to the restraint on Japanese competition have reduced sales by 480,000 units. These lost sales would have provided 34,000 jobs for American workers.

Higher prices for 1984 models seem to be the inevitable consequence of the Administration's request. While adding to the already bloated profits of Detroit's Big Three, these prices will drive more prospective customers from the showrooms, further limiting both production and employment.

Of greatest concern to the independent American businessmen who have invested their savings and their efforts to establish enterprises devoted to the sales and service of imported cars, is the prospect that the allocations of the quota will be further divided to provide Japanese-made cars for sale through General Motors dealers. It is the opinion of AIADA, after consultations with our attorneys, that to continue restraints on the supply of merchandise for franchised Japanese-make dealers while permitting an increase in shipments for distribution through competing GM dealers constitutes restraint of competition. Should such discriminatory allocations evolve from the Administration's request, AIADA would expect to seek whatever remedies are available to us.

Senator BENTSEN. Mr. McElwaine, I appreciate your presentation.

You spoke of the increase in profits by the motor companies. In fairness to the testimony of the vice president of Chrysler, he states that the record $310 million profit in the second quarter looks good and it is good, but he then turns around and says his firm lost an average of $350 million for each of previous 10 straight quarters.

Would you care to comment on that?

Mr. MCELWAINE. Well, there is no question but that Chrysler had an extremely difficult period of time and that it was turned around in a miraculous industrial job by Mr. Iacocca and his staff. It does seem unfair, however, that they should attempt to get back all those losses in such a brief period of time.

Chrysler's profits this year are expected to be at an alltime record high. As the current rate, their 1983 profits would be in excess of $500 million and their 1984 profits somewhere around $800 million. At that rate, they are getting them back at an even faster rate than they lost them.

It would seem that their per car profit level at this time, however, is demanding that the consumer in effect pay for all those previous years of mismanagement and misjudgment of the marketplace that Chrysler went through before Mr. Iacocca turned it around. I am not sure that that is a fair burden for the consumer to take on.

Senator BENTSEN. Let me ask you this question. The underlying theme, it seems to me, of your testimony is that free trade provides the best context for both trading partners. I am certainly one who has supported free trade in the past, but I am troubled by some of the aspects of the Japanese-United States relationship.

Because of the undervalued yen and Japanese trade barriers, trade between our countries really has not been a two-way street. In the case of citrus and beef, they have put severe limitations on the import of those products into their country. I know the problems the electronics industry has in this country trying to get the giant Nippon Telephone & Telegraph Co. just to buy a reasonable amount of their products. Where on the other side, AT&T buys Japanese products from abroad relatively freely.

How do you think we could best open up those Japanese markets and reduce this staggering $20 billion plus Japanese trade surplus with the United States?

Mr. MCELWAINE. The Japanese markets are, of course, of major importance to the United States now. Japan is our largest overseas customer of all the nations of the world. Japan buys 90 percent of their aircraft from the United States, 70 percent of her computers from the United States. There is no Japanese product other than perhaps small calculators which has a share of the American market as great as the share of the Japanese market that we hold, say, in aircraft.

We sell more beef to Japan than we do to all the rest of the world combined.

Senator BENTSEN. We have over a $20 billion trade deficit with Japan, which is now the largest trade deficit we have with any other nation.

Mr. MCELWAINE. There is no question we have a trade deficit with Japan and we will probably always have a trade deficit with Japan

simply because of the structural nature of the two economies. That trade deficit has certainly been exacerbated by the grossly inflated value of the dollar on the currency exchange markets of the world.

Senator BENTSEN. Well, would you also agree that it is an undervalued yen?

Mr. MCELWAINE. The last study I saw on that, Mr. Chairman, said that of the differential between the yen and the dollar today, about 80 or 85 percent of it was due to an overvalued dollar and about 15 to 20 percent was due to an undervalued yen. The great portion of it is simply due to the fact that with our interest rates at their level here and the Japanese prime rate at about 5.5 percent, your Japanese money managers are simply sending as much yen as they can into American investments. That outflow of the yen has been so great——

Senator BENTSEN. But they have severe limitations on capital going into their country and that keeps their yen down.

Mr. MCELWAINE. There are limitations to a certain extent, but most of those have been dismantled in recent years. There is no longer limits, for example, on the percentage of ownership that American corporations can acquire in, say, the Japanese automobile firms, for example; and I see where General Motors, as a consequence, is probably increasing its share of Isuzu from 35 to 40 percent and is now buying a larger share of Suzuki. We will see more there.

But the outflow of capital from Japan and into dollar investments has been so great that it has wiped out the huge Japanese trade advantage as far as their current accounts are concerned and they are now suffering a deficit in their current accounts, despite the huge merchandise trade surplus that they have enjoyed. And that is what is essentially destroying the yen-dollar relationship. There is no question but what our currency is badly out of shape in all the international markets. It is hurting us everywhere, not only in Japan but in Europe, and it is hurting our exports dreadfully. Our farm exports, in particular, have been hurt severely.

Senator BENTSEN. Mr. McElwaine, it is 12 noon and I have a caucus meeting I have to attend. I appreciate your testimony.

Thank you all for coming.

The subcommittee is adjourned.

[Whereupon, at 12 noon, the subcommittee adjourned, subject to the call of the Chair.]

[The following information was subsequently supplied for the record.]

STATEMENT OF

GENERAL MOTORS CORPORATION

SUBMITTED

TO THE

SUBCOMMITTEE ON ECONOMIC GOALS AND
INTERGOVERNMENTAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE

ON

THE SUBJECT OF AUTO RESTRAINTS

NOVEMBER 11, 1983

WASHINGTON, D.C.

General Motors appreciates this opportunity to submit this statement for the record of hearings on the subject of auto import restraints by the Subcommitttee on Economic Goals and Intergovernmental Policy of the Joint Economic Committee

The automobile industry is worldwide in scope and is intensely and increasingly competitive. U. S. government policy must encourage American firms in maintaining and improving international competitiveness through creation of an environment promoting flexibility of action. The United States needs an open world trading system and economic cooperation rather than friction with our major trading partners -- who are principal markets for our exports. Through pursuit of these broad policy goals for the overall economy we can improve the health of the U. S. auto industry and thus promote the long-range survival of the U. S. automotive production base and its associated employment.

In recent years, Japan has emerged as the world's low cost producer of passenger cars. It is generally agreed that today the Japanese have a landed cost advantage in the U.S. for their subcompacts of $1,500 to $2,000. During most of the past two years, the cost advantage of Japanese producers has been increased by an overall currency misalignment which appears to be attributable more to interest rates and developments in financial markets than to fundamental economic factors related to international competitiveness.

Despite this difficult challenge, General Motors has, most emphatically, not given up on producing small cars in the United States.

Our plans have been shaped by our belief that we should continue to offer a full range of products to our customers -- and by our long-term policy to produce vehicles in the markets in which we sell them. Even now, GM has the highest fleet average domestic content of any U.S. vehicle manufacturer.

We have chosen to meet the small car challenge through a "clean sheet of paper approach". GM now has underway an active project, our Saturn Project, to produce in America with American workers a new family of cost-competitive, efficient, high-quality American subcompacts. Begun in June 1982 with a hand picked group of experts, the Saturn Project now includes over 300 full-time employes and is supported by the entire range of GM's research and development resources. Of all the experimental projects underway in GM, Saturn has the largest commitment of such resources.

The assignment for the Saturn Project has been to look at every aspect of our business with a fresh eye to see how GM can reduce costs while improving quality, efficiency and employe job satisfaction -- all of which go hand-in-hand. The Saturn Team has not been restricted by a firm introduction deadline and is under no requirement to use existing parts, processes or plants. We realized that if this project were to be successful we had to design not just a new product, but new manufacturing, engineering and assembly systems to produce it.

The Saturn cars will be front-wheel drive subcompacts, smaller than our present Chevrolet Cavalier and 2000 family of subcompacts, but with comparable interior room. The Saturn cars will weigh about 600 pounds less than a Cavalier and some 300 pounds less than a Chevette. Their mileage will be about 45 mpg in the city and 60 mpg on the highway.

The Saturn cars and the innovation they represent in integrated design, engineering, manufacturing, assembly, materials management, and human relations will be an historic step toward overcoming the Japanese cost advantage in small cars. As Saturn's concepts then spread throughout our entire product line, they will help ensure that the American auto industry remains competitive and is able to provide secure, well-paying American jobs. And our goal is not only cost competitiveness, but to make solid advances in small car safety, handling and durability.

Other competitive steps GM is taking include its joint venture with Toyota to build subcompacts at a closed GM plant in Fremont, California. The joint venture is vital because what we will learn from it will be important to the Saturn Project, as well as to other future product programs. The joint venture will produce 200,000 vehicles a year for no more than 12 years, resulting in up to 12,000 direct and indirect additional U.S. jobs.

For as long as there is consumer demand, we will maintain production of the Chevrolet Chevette and Pontiac 1000. We will also be producing some 650,000-750,000 "J" cars.

To gain necessary time, GM elected to import small Japanese cars as a bridge to fill out the lowest end of our product line. U. S. nameplates in the subcompact market are necessary to maintain strong dealerships and future jobs. Attracting entry level buyers is critical because they have historically tended to remain loyal to that first nameplate in later years. Once lost, it is exceedingly difficult and costly to attempt to reenter a market segment. This approach is similar to our import of Japanese-made LUV pickups, which provided the time to tool-up and produce, in this country, our successful S-10 light trucks.

About two years ago, we made plans and investments to bring into the market under the Chevrolet nameplate 200,000 Isuzu-produced subcompacts and around 90,000 even smaller cars produced by Suzuki -- cars smaller than any car produced in the U. S. Both of these cars, especially the Isuzu, will have U. S. components which means they will produce jobs in the U. S. The imports would put us on a more equal footing in the subcompact segment of the market with other companies selling subcompacts in the U.S. sourced in Japan, namely Nissan, Toyota, Chrysler, Honda, Mazda -- all of whom currently enjoy a cost advantage.

On November 1, the Japanese government announced there would be a fourth year of export restraints at a level of 1.85 million units. It now remains to be seen how the Japanese government will decide to apportion this larger volume of exports to the U. S.

Suzuki has had no allocation under the restraint program in its current form and Isuzu has had but a bare minimum. Both companies, aided and encouraged by GM, invested heavily, relying on Japan's announcement that the restraint program would last no longer than three years. These companies would be placed in serious financial jeopardy if the two GM car programs they are working on were prevented by the new restraint program. We believe that to be equitable, Isuzu and Suzuki should be accommodated under the new arrangement.

We believe that in the future, we can build subcompacts in this country competitively and without protection -- and we have a sequence of programs in place to make this happen.

As part of this statement, there are enclosed copies of the remarks made by the Chairman, Vice Chairman and President of General Motors at the conference announcing the Saturn project.

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